ACCOUNTANTS today

Volume 17 • Number 4

MAY 2004

Financial Shared Service Centres

Is Malaysia Ready for the Phenomenon?

- Are Managers Myopic?
- Fraud, Wilful Default and Negligence

ISSN 1394 - 1763

9 771394 176008

Member Audit Bureau of Circulations (Malaysia)

(Established under the Accountants Act, 1967)

A Monthly Publication of the Malaysian Institute of Accountants

Malaysian Institute of Accountants
(Established under the Accountants Act, 1967)

The **Malaysian Institute of Accountants** is a statutory body set up under the Accountants Act, 1967 to regulate and develop the accountancy profession in Malaysia.

The functions of the Institute are, *inter alia*:

(a) To regulate the practice of the accountancy profession in Malaysia;

(b) To promote in any manner it thinks fit, the interests of the accountancy profession in Malaysia;

(c) To provide for the training and education by the Institute or any other body, of persons practising or intending to practise the profession;

(d) To determine the qualifications of persons for admission as members; and

(e) To approve, regulate and supervise the conduct of the Qualifying examination.

Publishing Consultant
Executive Mode Sdn Bhd (317453-P)
Tel: +603-7118 3200, 3205, 3230 Fax: +603-7118 3220
e-mail: executivemode@executivemode.com.my
Homepage: http://www.executivemode.com.my

Printer
Ultimate Print Sdn Bhd (62208-H)
Lot 2, Jalan Sepana 15/3, Section 15, 40000 Shah Alam
Tel: +603-5101 3888 Fax: +603-5101 3600

Published By
Malaysian Institute of Accountants
Registered Office and Address
Dewan Akauntan
2 Jalan Tun Sambanthan 3, Brickfields
50470 Kuala Lumpur
Tel: +603-2279 9200 Fax: +603-2274 1783, 2273 1016
e-mail: mia@mia.org.my
Homepage: http://www.mia.org.my

Adding Value Through a Shared Service Centre

As the corporate pendulum continues its swing between centralisation and decentralisation, it seems to have hit centre with a concept that is revolutionising financial and administrative processes. Shared services, commonly described as a form of internal outsourcing, is enabling forward-thinking companies to achieve certain economies of scale by creating a separate entity within the corporation to perform specified internal services.

By consolidating specific operations in one location and concentrating the processes, while at the same time developing a strong customer service orientation, a shared service centre can provide higher-quality services at a lower cost.

On the cover this month are articles on the topic of Financial Shared Service Centres (FSSCs). As more large multinationals begin to base their FSSCs here, it would seem that our shores are highly attractive to these kinds of operations. The article seeks to shed more light on the financial shared services concept and also takes a look at Malaysia's readiness in offering an exceptional value proposition to companies wanting to invest in shared services as it can provide the highest value of services at the lowest price in the world.

Accompanying the article is a case study on ATRACC Sdn Bhd, the Royal Dutch/Shell Group's accounting shared service centre that was established in Kuala Lumpur which serves Shell companies in 12 countries. On the same topic, an article titled "Integrated Expectations" enlightens readers on how to squeeze significantly more value out of shared service centres by focusing on IT, cultural and geographical matters.

Moving on from financial shared services, we have featured an interesting article titled "The Paradox of Knowledge" in which the author puts forth a theory linking sloth or slowness in performing a routine task to fraud. He says that when a routine or simple duty is performed at an abnormally slow pace, it is possible that the mind of the person doing it is preoccupied with deceitful thoughts that are dragging him down. How is this so? Do read the article to find out the author's justification for such a theory.

As technology becomes all pervasive, we will inevitably become dependent on the usage of these products to help make our lives simpler and hassle free. However, this brings about the need for us to keep ourselves updated on the latest gadgets and gizmos available in the market in order to make informed decisions when a purchase needs to be made.

Recognising this need and in serving our readers better, *Accountants Today* has created a new column called Tech Talk, which is dedicated to introducing new tech products to readers. The column will be featured once every two months and is aimed at acting as a buying guide for those who wish to make purchases of gadgets like personal computers, notebooks, printers, digital cameras and other information and communications technology (ICT) products. We hope that this column would effectively serve as a guide to all our readers.

As always and with every issue we hope that the articles that we have lined up for you in this month's *Accountants Today* will please you. Happy reading! AT

Editor
ACCOUNTANTS TODAY

LETTERS TO THE EDITOR

A key element in the world of publishing is what readers have to say. We want to hear from you on just about anything that appears in each issue of *ACCOUNTANTS TODAY*. Why not drop us a line now?

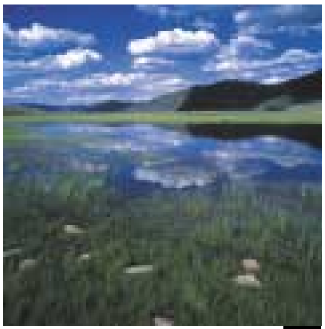
CONTRIBUTION OF ARTICLES

Accountants Today welcomes original and previously unpublished contributions which are of interest to accountants, business leaders, executives and scholars. Manuscripts should cover domestic or international accounting developments. Lifestyle articles of interest to accountants are also welcomed.

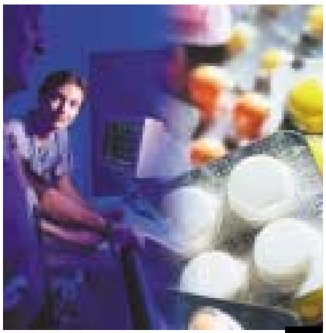
Manuscripts should be submitted in English or Bahasa Malaysia and range from 2,500 to 5,000 words (double-spaced, typed pages). They should be submitted in hardcopy and diskette (3.5 inch) form in Microsoft Word or Lotus Wordpro. Manuscripts are subject to a review procedure without prejudice and the Editor reserves the right to make amendments which may be deemed appropriate prior to publication.

Contents
May 2004

14



24



30

38

Editor, Accountants Today
Dewan Akauntan, 2 Jalan Tun Sambanthan 3, Brickfields, 50470 Kuala Lumpur, Malaysia
Tel: +603-2279 9200, Fax: +603-2274 1783, e-mail: editor@mia.org.my Homepage: http://www.mia.org.my

Malaysian Institute of Accountants
(Established under the Accountants Act, 1967)

VISION AND MISSION

MIA's Vision

- To be a globally recognised and respected business partner committed to nation-building

MIA's Mission

- To develop, support and monitor quality and expertise consistent with global best practice in the accountancy profession for the interest of stakeholders

MIA BRANCHES

State	: **Johor**
Location	: Johor Bahru
Chairman	: Soh Siong Hoon, Sam
State	: **Kedah & Perlis**
Location	: Alor Setar
Chairman	: Chan Boon Jiun
State	: **Kelantan**
Location	: Kota Bahru
Chairman	: Billy Kang
State	: **Melaka**
Location	: Melaka
Chairman	: Halim Husin
State	: **Negeri Sembilan**
Location	: Seremban
Chairman	: Tan Teng Chai
State	: **Pahang**
Location	: Kuantan
Chairman	: Foo Tui Lee, Joseph
State	: **Penang**
Location	: Penang
Chairman	: Fan Kah Seong
State	: **Perak**
Location	: Ipoh
Chairman	: Soo Yuit Weng
State	: **Sabah**
Location	: Kota Kinabalu
Chairman	: Alexandra Thien
State	: **Sarawak**
Location	: Kuching
Chairman	: Tiang Kung Seng, David
State	: **Terengganu**
Location	: Kuala Terengganu
Chairman	: Su Lim

Triple Bottom-Line Reporting

Dear Editor

I refer to the March 2004 issue and the article by Saravanan Ramasamy, *"Triple Bottom-Line Reporting"*.

I object to the writer's pronouncement that "net profits and EPS are unreliable measures of corporate performance. These accounting measures are not counting what counts and measuring what matters."

This is certainly a very quick judgment as accounting in its current state still serves what it is supposed to provide. From the 'legal entity' point of view net profits are what the entity has made during a financial period. Notwithstanding the imperfections of measurements we cannot and should not say that they are 'unreliable measures of corporate performance.'


Triple Bottom-Line Reporting

— The Path for Corporate Disclosure

How else would you know the state of the economy if not for the imperfect statistics we read?

How else can you gauge whether children are doing fine at school if not for the grading system?

Measures such as "Economic Value-Added", "Value-Based Management", "CFROI" or "Cash Flow Return On Investment", "Economic Profit Model", "Value Builder" and "Economic Value Management" introduced by the Big Four and other notable experts while serving their purposes for financial investments are not without their imperfections. They were introduced to look at information or to provide information not otherwise gleaned from reading the published financial statements.

The author has in one sentence discredited the benefits of accounting, which took years of dedicated effort on the part of the accounting profession to build up.

Thank you.
Ng Weng Onn

• •

Dear Mr. Ng

First and foremost, the article *"Triple Bottom-Line Reporting — The Path for Corporate Disclosure"* was never meant to '*discredit the benefits of accounting*' in any way. It was rather aimed at highlighting how traditional financial reporting can be brought to further heights by harmonising it with emerging thinking of triple bottom-line reporting (i.e. Economic Value-Added, Environmental Value-Added and Social Value-Added).

The recent accounting scandals have definitely brought to the surface the question whether the current state of financial reporting still serves what it is supposed to provide. Shareholders invest in companies with the hope of increasing their wealth. This fact does not seem to be reflected in traditional accounting measures. One obvious example is when no charge is deducted from earnings for the cost of providing common shareholders with a fair return on their investment. Traditional accounting deducts interest on debt but unaccountably deem retained earnings to be free.

In its 2001 annual report, Enron, asserted that *"We are laser focused on earnings-per-share"*. Echoing the same sentiment, many companies today are increasingly giving priority to boost the magnitude of their earnings even at the expense of quality. In other words, companies are effectively buying more earnings at a lower rate by investing the capital in ventures with low return. As a result, we may have a significant accounting profit with little to no economic profit. This may at times result in stupendous earnings distortion. In this case, will the continued reliance on net profits and EPS provide reliable measures of corporate performance? No doubt that from the 'legal entity' point of view, net profits may represent what a company has made during a financial period, but the time has come for us to broaden our horizon and to view the company from an 'economic entity' point of view.

Based on a recent survey conducted by Stern Stewart & Co, a New York-based global consulting firm, it has been estimated that in 2002 the S&P 500 firms had US$3 trillion in equity. Using a 10 per cent cost of equity for simplicity, the annual opportunity cost of capital is approximately US$300 billion, an enormous amount that has been totally ignored. The aggregate net income for the S&P 500 was only US$118 billion. Thus the impact of this omission is an overall EVA *loss* of US$182 billion.

The current disagreement over the statement that "*net profits and EPS are unreliable measures of corporate performance*" maybe due to the failure of the reader to appreciate the article in totality. Interpreting the above mentioned statement purely from its face value can result in its true meaning to be taken out of context. The world has witnessed the meltdown of several prominent public-listed companies mainly in corporate America, which in turn has resulted in the destruction of billions of dollars in shareholders' wealth. Though the damage may have already been done, it is better to close the barn door after the horse has bolted than never.

Thank you.

Saravanan Ramasamy

MIA Qualifying Examination

Dear Editor,

There was a recent disappointment at the courts when a decision to reject a bid from some aspiring accountants to enable them to sit for the Malaysian Institute of Accountants Qualifying Examination (MIA QE) was widely reported in the local papers. My heart goes out to the young aspirants. It must be quite painful to know that they have gone through an unrecognised course for nothing.

In this case, the court held that three weeks was insufficient and unreasonable for the applicants to expect a decision from MIA on the acceptance of their programme to sit for the MIA Qualifying Examination.

While I fully support the contention that three weeks is unreasonable to expect a decision as MIA need to go through its established statutory procedures to arrive at a decision, I do not think it is unreasonable to at least expect an acknowledgement or a notification confirming attention is being given to the submissions made.

While many of us are always having a go at civil service for lack of timely responses, I strongly believe that as professionals, one must lead the way in courtesy and promptness. In my many dealings with MIA they are always very slow in acknowledging, let alone replying.

I sincerely hope that the learned judge was referring to expecting a decision within three weeks, not the issuance of a receipt of acknowledgement. I do hope MIA does not take this as a *carte blanche* to take their own sweet time on issues raised.

If receiving a reply after three weeks is unreasonable, I worry for the future of our professional bodies, let alone the civil service and private companies. This would entail them sitting on their proverbial and not bothering to respond.

As a chartered accountant myself, I would think that everyone, even MIA who supervise and regulate accountants would endeavour to acknowledge receipt within 14 days. After all if we as accountants don't reply within a specified period, we can be hauled up for disciplinary action if a complaint is made. Surely the same standard if not higher must be shown by the governing body itself?

Radha K. Vengadasalam

CHARTERED ACCOUNTANT, PETALING JAYA

Dear Mr. Radha

In response to your e-mail, the judgment in the particular case dealt with specific facts, which were not fully set out in the newspaper reports. One of the issues in that case was whether, the Plaintiff who was an applicant for the MIA Qualifying Examination, was premature in filing her action at the Kuala Lumpur High Court to seek various declaratory and other relief against MIA including a declaration that she was entitled to sit for the MIA Qualifying Examination, within less than three weeks of lodgement of her application with MIA.

Once the action in court was filed, the Examination Committee was forced to stay all decisions on applications for the MIA Qualifying Examination in respect of applicants with similar qualifications, so as not to be in contempt of court given that the court was being asked by the Plaintiff to make a decision on the merits of her application for eligibility to sit for the Qualifying Examination.

On this issue, the learned High Court judge held that the Plaintiff was indeed premature in filing her court action, since it was not reasonable to expect the Examination Committee to make a decision on her application within three weeks of the lodgement of her application.

The time frame for acknowledging receipt of applications was not an issue in this case. However, for the information of readers and Mr. R. Vengadasalam, all applicants for the MIA Qualifying Examination are issued immediate acknowledgements (if applications are personally lodged) or are issued acknowledgements by post within 7 days (if applications are lodged by post).

MIA is not in a position to comment any further on this case, since the matter may be subject to appeal by the Plaintiff to the Court of Appeal — we are awaiting confirmation from our solicitors as to whether such an appeal has been lodged.

MIA would like to thank Mr. R. Vengadasalam for his expression of concern in terms of MIA's professionalism and response time to any queries or dealings by members and the public with MIA. MIA accepts that as the national regulatory body which regulates accountants in Malaysia, MIA should conduct itself at the same if not higher standard than that expected of its members.

MIA seeks to constantly improve its services and each of its departments has implemented transparent policies for responding to technical queries and other membership queries.

Thank you.

Legal Manager

MALAYSIAN INSTITUTE OF ACCOUNTANTS

What the Accountants Say

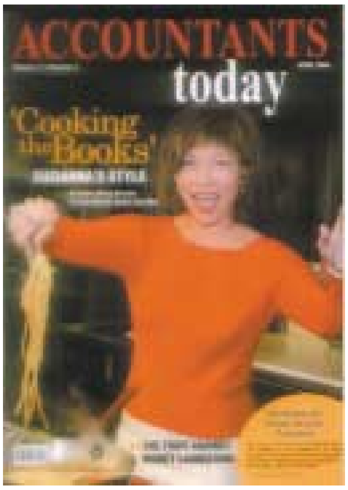
A little sugar … a little spice!

■ *Your spread of articles truly reflect how ACCOUNTANTS TODAY appreciates variety. And so do I. It was engaging to read how an accountant became a cook! However could I caution you to refrain from doing pieces like these too often, as it does not give enough attention to accountants-in-practice.*

The balance between technical and soft skill articles are good because it helps accountants today see they must work to strike a balance in their careers. While technical know-how is important, it certainly helps to have good communications and PR skills!

I am looking forward to reading articles on Enterprise Governance and the initiatives taken by the FMC working group so I hope the Editorial Board will surprise me soon with these! It's a great job you've been doing so far … so keep up the good work. — **Yeo Tek Ling**, MIA Council Member

Covers never fail to please



■ *"The April 2004 front cover certainly caught my attention! Good work Editorial team in covering accountants who make it beyond the accounting practice. I enjoyed the article on the success of accountants in F&B.*

To the critics with "red eyes" who have levelled criticism with no basis on both Council and staff members of the Institute on their contributions, please take a good look at yourselves. How about contributing your share towards the Institute first? You may do so by either writing for the magazine and if your article is good enough, there is no reason for the Editorial team not to publish it. Or why not contribute your valuable time for a charitable cause? No use criticising without cause. Stop it and come forward to contribute your share or stay out!

I must also comment that the Annual Report of the Institute, which carries news on activities and events, is very informative. Many of the articles in the magazine today are relevant to our daily professional practice and so far all articles are of adequate length.

ACCOUNTANTS TODAY has a good mix of articles and it was a great move to keep away from technicalities since many members including members who are on boards of directors read the magazine too. The company secretary, Yul Shin Kok reads the magazine and finds it highly informative. The series of articles on AMLA were insightful and as a practicing lawyer cum chartered accountant, I shared these articles with my staff. I must add that the news on the Institute's events are about right and not too lengthy. I must congratulate Council Members and staff of the Institute who spend valuable time including weekends in attending career talks and related seminars such as the career talk by Raymond Liew last April on the accountancy profession. Well done and please continue the good work". — **Kien Chai Lim**, (Lawyer and Chartered Accountant), Kuala Lumpur

Varied and very informative!

■ *"The thing I like most is the change of name to ACCOUNTANTS TODAY (AT)! Great move… definitely commendable as such a name is globally recognised. The recent article on Suzianna Wong and more up-to-date news such as the transformation of the KLSE shows you guys are really on the right path.*

However, I am sure many other members would like to receive their AT earlier, say the first week of the month if it is possible, instead of towards the second week.

I would like to say other than the vast improvement in the quality of articles, the paper and printing is of a high standard too. Kudos to both the Editorial Board and the Communications Department of the Institute". — **Ms Tarana**, MIA Secretariat Staff

Superb Show!

■ *"What do I think of Accountants Today? One word, 'Superb!' Great work, Editorial Board."* — **Teo Meng Hua,** Singapore

'Wow' factor more than evident

■ *"It's a great revamped magazine with lots of 'oomph' …. and a 'bang' impact! No doubt there would be an even bigger impact if a column on job vacancies relating to the accountancy profession is included separately for the benefit of members seeking jobs. Good work so far…"* — **Allen Low**, Bandar Teluk Intan

MIA Balanced Scorecard Implementation Workshops

By Jas Yong
STRATEGY, PLANNING & RESEARCH DEPARTMENT

Following the success of the Balanced Scorecard (BSC) Awareness Workshops conducted on 5 and 12 January 2004 respectively, MIA EXCO members and heads of departments attended two more meetings to move into the next phase of the BSC implementation which entails the development and implementation of the Balanced Scorecard project. Roots Consulting Sdn Bhd (RC)'s managing director Margaret Chin and her team conducted the second and third workshops, which are detailed below.

Workshop 2: Strategy Mapping Workshop

Securities Commission, 5 March 2004

The main objective of this workshop was to develop a Master Strategy Map (MSM) for the Institute. The MSM plays a crucial part prior to the development of measurements and Key Performance Indicators (KPIs). Also it is important because MIA sits in a unique position as a regulatory body representing all accountants in Malaysia, and its achievements have the capability to positively impact the national economy. Towards this end, Chin stressed, "Without clearly clarifying and articulating our goals and strategies, we might find that we are climbing up the wrong wall. It would be too late as resources and time have been used up; we *should get this right at the very beginning and work towards making things happen!"*.

For starters, the participants were given a brief recap of topics covered in the earlier workshops. Chin introduced the concept of the MSM to participants and highlighted the need for the Institute to agree on its Strategic Themes in order to identify the most important paths towards the long-term goals to realise an organisation's strategic vision.

Creating the strategy map was a daunting task, given the dual role of MIA as a regulatory body and as a members' representative body. The strategy map was also to be derived primarily from the Strategy Visioning Report, and clarified to reflect the current challenges facing MIA and the accounting profession at large. Chin emphasised that the Strategy Map has to tell the story of MIA and what it is about. With these words of guidance, the participants began the strategy mapping process.

The first step involved confirming the Institute's strategic direction, namely its mission, vision and goals. As a team, it was decided to cascade MIA's strategy map based on six perspectives. They were: **Stakeholders, Members, Regulatory, Learning & Growth, Internal Process** and **Financial**. Each perspective

MIA President, Datuk Dr. Abdul Samad Hj Alias (right) and MIA Vice-President, Abdul Rahim Abdul Hamid, during the Balanced Scorecard Workshop

enabled the participants to see how operations from one area of MIA impacted other areas, hence a study of "cause-and-effect".

Separated into smaller groups, the participants had to develop the "cause-and-effect" linkage between objectives that tell the story of MIA. Each group was given a flipchart to come up with an individual Institute's Strategy Map, which would be consolidated into the Institute's Master Strategy Map upon consensus from all participants.

As the team got together, a healthy debate took place between participants with the aim to obtain consensus on MIA's strategy. Step by step, the participants were able to crystallise and document the Institute's Master Strategy Map, with hearty support from EXCO members and HODs working as a cohesive team. The "silos" of the hierarchy and functions fell away as the strategic objectives of MIA came into sharp focus. The buy-in of the team was a critical success factor for the BSC transformation of culture.

The strong participation and endorsement of the Strategy Map certainly bodes well for the continuing implementation of the Balanced Scorecard. This would mean that the Institute has climbed the right wall one step higher and is another step closer towards translating its strategies into actions!

STRATEGY MAP'S FUNCTIONS

- Articulate and Communicate strategies.
- Tells the "Story" of the organisation.
- Enable discussions about cause-effect relationships when considering and making strategic decisions about the organisation.
- The driver in identifying & selecting KPIs to monitor activities.
- Identify the success rate of an organisation & the intention level to succeed.

CREATING MIA'S STRATEGY MAP

Step 1	Identifying the Challenges facing MIA
Step 2	Confirming the Strategic Direction of the Institute
Step 3	Developing the Strategy Map based on the Strategic Direction
Step 4	Validating the Strategy Map
Step 5	Developing the Master BSC

A participant giving his input towards creating MIA's Strategy Map

Clear goals and strategies are essential in the process of developing a Master Strategy Map according to Margaret Chin

MIA managerial staff during the Balanced Scorecard Implementation Workshop

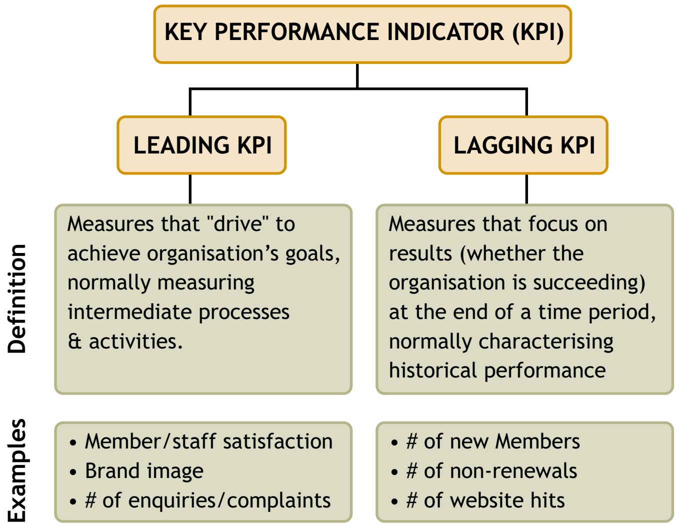
Workshop 3:
MIA BSC Implementation Workshop

Hotel Midah, Kg. Attap, 30-31 March 2004

Prior to the commencement of the workshop, the HODs were requested to complete some preparatory work. They were given a practical exercise on implementing a corporate scorecard in which valuable inputs were required

Each group was assigned to a perspective from the Strategy Map in order for them to validate and reach an agreement on the strategic themes. They had to ensure the "cause-and-effect" linkages were correct and appropriate for MIA. After the groups presented their assigned perspectives, the strategy map was finally validated. It was to be fine-tuned by RC for the endorsement of the Council later.

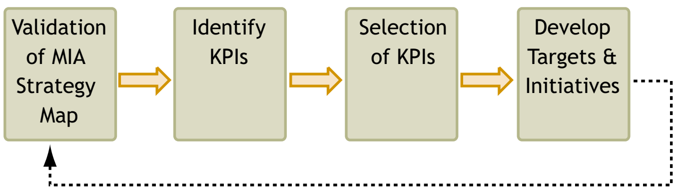
Thereafter, in groups, the participants had to brainstorm to identify appropriate KPIs for the validated strategic objectives and ownership to ensure that objectives and KPIs are achieved.



Just like driving on a winding road, the participants needed to be cautious when selecting the KPIs as they are critical in driving the organisational motivation and behavioural patterns. If incorrect KPIs are chosen and used, they may have a detrimental effect on the organisation.

The participants were requested to develop targets and initiatives for the KPIs set, validate the initiatives that had been set in the adopted *Strategic Blueprint Implementation Phase (SBIP)* and to realign to the specific objectives under the BSC.

With the accomplishment of all the scheduled discussions and validations; the validated strategy map, draft KPIs, targets and initiatives were presented to EXCO members during the final session of the workshop. AT



BSC Implementation Process

Shell Adding Value Through a Shared Service Centre

Being an oil giant is not easy. Every step the company makes is scrutinised by shareholders and the public alike. Every "wrong" step is condemned while not every "right" step taken is applauded.

ATRACC's Chief Operating Officer Jacob Piran-Lian

"ATRACC was formed in the late 1990s as a response by one of the business sectors to a challenge by the company's top leadership. The challenge was to achieve operational excellence and cost leadership as one of the strategies to enhance Group profitability."

Jacob Piran-Lian, Chief Operating Officer ATRACC Sdn Bhd

In the case of the Royal Dutch/Shell Group, the 'right' step that it has taken quite recently is to set up an accounting shared service centre in Malaysia to serve the Asia Pacific region. Citing reasons such as to reap economies of scale, remove duplication of effort across companies, optimise higher efficiency through standardisation in processes and work practices on transactional activities, Shell's management can now focus their attention on growing the overall business.

Named ATRACC Sdn Bhd, the Kuala Lumpur-based entity is currently one of three accounting shared service centres in the Shell Group and it is 100 per cent owned by them. ATRACC has a separate and distinct corporate identity and culture from Shell.

Services offered include invoice processing and payments, billings and receipts, period end closing, financial reporting and payroll processing. It currently employs 300 people with accounting qualifications or finance backgrounds.

Chief Operating Officer, Jacob Piran-Lian told *Accountants Today* that ATRACC was formed in the late 1990s as a response by one of the business sectors to a challenge by the company's top leadership. The challenge was to achieve operational excellence and cost leadership as one of the strategies to enhance Group profitability.

What was the first consideration?

The location, of course. Said Jacob, "For the Asia Pacific region, Kuala Lumpur was chosen after considering many factors including labour cost and supply, infrastructure, talent pipeline, linguistic skills, and the highly conducive and stable socio-political landscape of the country".

Additionally, Shell has a very significant presence and a 114-year old history in the country, he said.

Indeed, the choice of location is one of the most important factors in establishing a shared service centre, particularly for Shell, which has over 350 companies operating in more than 145 countries.

Establishing the entity was done rapidly as the business case for change was clear and robust. A common ERP system was a key enabler.

According to Jacob, some useful learnings were also taken from Shell's experiences in Europe and incorporated into the implementation plan and operating model. A project team consisting of Shell's personnel and external consultants were responsible for delivering the implementation plan. Since 2002, having acquired the experience and skills, ATRACC now fully manages the migrations themselves.

The response among companies within the Shell stable in the region was good. The first to migrate their transactional accounting and processing to ATRACC in the first quarter of 2000 was the Shell Oil Products companies in Malaysia. Since then, other Shell companies in Malaysia and in the Asia Pacific region, who are on the same ERP system, have moved these activities to ATRACC.

Presently, ATRACC serves Shell companies in 12 countries, covering a multiple of

"For the Asia Pacific region, Kuala Lumpur was chosen after considering many factors including labour cost and supply, infrastructure, talent pipeline, linguistic skills, and the highly conducive and stable socio-political landscape of the country".

integrated businesses such as Shell in Malaysia.

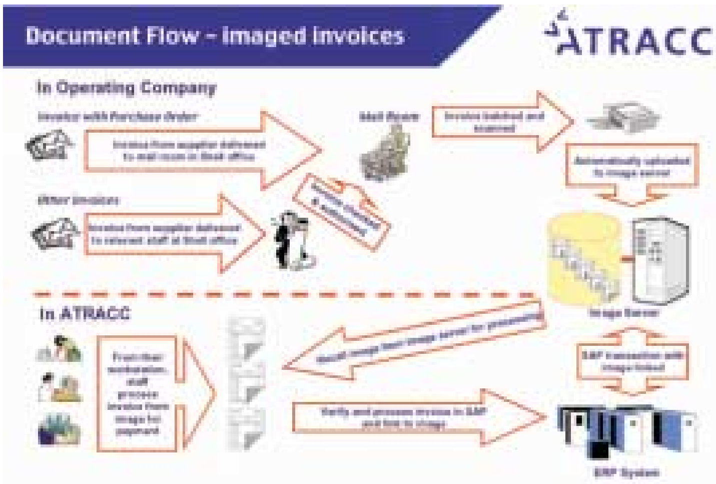
"Upon migration, our clients enjoy substantial cost savings from their baseline cost of undertaking such activities at their location. Thereafter, and to-date, clients enjoy a further rate reduction each year," claimed Jacob.

In general, the finance functions in the businesses are relieved of transactional activities, allowing them to concentrate on business decisions, support and other value-adding activities such as information management, tax planning and optimisation, and financial planning.

Other benefits attributed to ATRACC include improvement in service quality, stricter controls and compliance, improvement in process efficiency through cross-country best practices, and transparency as well as data integrity.

Open office concept in ATRACC, promoting integration and team spirit among staff

ATRACC is oriented towards service delivery and performance measurement … Key Performance / Service Level Indicators are displayed on the office walls, highlighting both achievements and areas needing improvement.



Using a web-based imaging software, an invoice can be processed virtually in ATRACC for payment, without the need for the invoice to be sent physically from the Operating Company location to the ATRACC office

"Upon migration, our clients enjoy substantial cost savings from their baseline cost of undertaking such activities at their location. Thereafter, and to-date, clients enjoy a further rate reduction each year"

What does the future hold for ATRACC?

Most importantly, it has proven to be a global "best-in-class" and a success story. And, success breeds success.

"Now, existing clients who are satisfied with ATRACC's services want it to undertake more functions. Something that is very carefully considered," said Jacob.

"Even new clients who notice the success story want to pursue cost leadership initiatives with us as well," he added.

Jacob is confident that ATRACC will continue to grow, definitely in the short term. And in the longer term, it will go on to demonstrate that it is a centre of excellence, where the service quality is world class both in terms of service level and costs. AT

Both cover articles were initiated by the Institute's Financial & Management Accounting Committee. For enquiries, please contact fmac@mia.org.my.

Financial Shared Service Centres

Is Malaysia Ready for the Phenomenon?

By Habsah Marjuni


It's an American concept that has been embraced wholeheartedly by the European business community. Seen as more than just an effective way of keeping costs down while improving efficiency, the Financial Shared Service Centres concept has also been making inroads into the Malaysian corporate scene especially among the large multinationals. ***What is this FSSC concept and why is it becoming more popular among companies operating in Malaysia?***

The term FSSC entered the world's corporate lexicon in the early 1990s as large companies looked to combine basic transactional processes such as payroll, purchasing and accounts payable, and sell back those services at cost to the individual business units. And, as companies extended their presence across borders, it became increasingly uneconomical to maintain a duplicate accounting infrastructure within each country of operation.

By the late 1990s, it was reported that more than 60 per cent of Fortune 500 companies had shared service structures while over 50 per cent of major multinationals in Europe had implemented it by end of year 2000.

A key element of the FSSC phenomenon is the evolving role of the finance function and the ongoing efforts to improve the quality and value-added derived from accounting services. The finance function is uniquely positioned to take a leadership role in a company's change process, as it touches every point in the value chain and has more contact with other functional departments than any other area. The finance function has the overall ownership of information management and delivery.

In order to become an effective change agent within the organisation, finance must redefine its own role. It must transform itself from the traditional "scorekeeper and guardian" role to true business partner. For many of the leading edge companies much of the focus has been on the transaction processing areas, that is, that the local core activities would be supported by the approach known as "shared services".

Thus, the FSSC concept was conceived out of necessity. Also, it appears to exclusively create vast data processing for large volumes of paper invoices or journals and other transactional documents. However, companies were quick to realise that FSSCs could also be vehicles for the centralisation of higher value-added activities such as treasury, cash flow management and corporate reporting.

At the same time, companies also recognise that the setting up of a FSSC involves not only the migration of transaction processing to a single location, but a dramatic transformation of the delivery of accounting services in pursuit of increased shareholder value and improved business execution.

FSSCs create strategic value in two other ways besides capitalising on economics of scale. First, the information that is now captured through the internal customer-supplier relationship can develop new ideas for services and products. Practices constantly evolve as new technologies, ideas and ways of accomplishing processes are developed.

Second, FSSCs also give the organisation the flexibility to add new business units, assimilate acquisitions and expand geographically more rapidly than ever before. As it is exclusively a support function, it frees business units to focus solely on their core businesses and pursue new opportunities.

Implementing a FSSC is no small undertaking. The physical logistics are considerable and, along with the effects on employee morale and headcount, can lead to difficulties. A report points out that the major causes of difficulty in a FSSC implementation are not legal and technical but more often in the realm of organisational culture and change management.

Considering the complexities of undertaking a massive backdoor restructuring necessary to implement FSSC, it is understandable that the phenomenon has not really caught on among Malaysian companies. Thus far, the few notable ones are: Sime Darby, the Sunway Group and Scicom. Others in the list are multinationals who have set up similar facilities elsewhere (and not necessarily FSSCs) and Malaysia is just one of their regional centres.

Among these MNCs are Shell, Standard Chartered, Caltex and HSBC.

Nevertheless, there's a ray of hope. It comes in the virtual form of the Multimedia Super Corridor. Within the realm of this mega IT project, more than 6,000 export-oriented shared services jobs have been created with the aim of creating some 60,000 by 2008. Although the Multimedia Development Corporation said it is an achievable target, the competition among countries in the region is stiff. Singapore, India and the Philippines are breathing down our necks.

MDC's confidence is stemmed from the fact that over the next few years, an estimated 3.5

A DEFINITION...

The consolidation and sharing of services by different units within an organisation. At the lower end, these services refer to non-core activities such as contact centres and network hubs. Higher end services encompass organisational development and business strategy groups, HQ operations, project management, marketing, sales and other supply chain services. Organisations in this context are usually multinationals with cross-border activities. Shared services can also apply to the sharing of services by different organisations. Examples include contract manufacturing, logistics, business process outsourcing and IT outsourcing.

THE RATIONALE …

The American and the European experience demonstrate significant cost savings when they implement shared services. Savings up to 50 per cent have been quoted in the US while a 35-40 per cent saving is commonly quoted in Europe. The reasons for establishing a FSSC are many and extend beyond issues of staff and cost savings. If any of these are in your company's list of objectives, then it's time to consider FSSC.

- align accounting services with business strategy.
- eliminate non-value-added activities.
- improve/redesign back office process.
- centralise routine transaction processing.
- standardise processes across operating countries.
- obtain consistent information across sites and countries.
- benefit from favourable tax regimes.
- free up capital for core business operations.
- accelerate and renew processes such as cash collection.
- free staff to focus on strategic objectives.
- improve connectivity across the value chain.

Source: ACCA

million jobs in shared services are expected to be created in the developing world. Malaysia has a modest target of garnering just 10 per cent of the higher value end of this total. This means that Malaysia will not only attract the setting up of FSSCs but also other high-end shared services that will utilise the country's IT expertise.

Practising industry players are however saying that Malaysia should not be viewed as direct competitors of India and the Philippines, at present considered the two rising stars in the outsourcing business because a majority of activities in both countries represent commoditised services. Malaysia is looking at the higher value space. Thus, we should attract those that also bring along management that control budgets, and those who develop business strategies and implement development programs such as R&D, product development, supply, sales and customer services. More than just FSSCs.

In short, Malaysia offers an exceptional value proposition to companies wanting to invest in shared services as we can provide the highest value services at the lowest price in the world. In a nutshell, Malaysia can give companies wishing to be closer to their Asia-Pacific clients, what Singapore has to offer at half the price.

Malaysia also offers incentives and commitment at the highest level of the administration. Many ministries and government agencies are dedicating their efforts to ensure that Malaysia matches if not exceeds incentives offered by other countries. This is because our government is totally committed to developing shared services as one of the country's engines of growth. At least three agencies such as the Ministry of International Trade and Industry (MITI), the Malaysian Administrative Modernisation and Management Planning Unit (MAMPU) and the Malaysian Debt Venture (MDV) are committed to ensure that relevant policies and procedures are in sync.

Within the MSC, the MDC is operating as a one-stop centre and matchmaker for investors in shared services. The investors can go to MDC with their needs and they will be helped to identify synergistic partners, as well as guided through relevant government procedures.

Incentives aside, a vital factor attracting investors to Malaysia is its people. There are a sufficient number of people in Malaysia who are multilingual. From a centre located in Cyberjaya, for example, many companies find that they can service markets from India all the way down to Australia and up to China and Japan. Similarly, at the higher end, big corporations are realising that many Malaysians have deep industry experience, good research skills and wide

LOCATION, LOCATION, LOCATION …

Where the FSSC is located is one of the critical factors in ensuring that it will be a success.

1 Cost benefits:

- wage scales and incentives, local government and company allowances, fringe benefits
- tax and duty requirements, tax holidays and incentive schemes, requirements for taxation status
- government grants and assistance
- relocation or training grants for new employees
- closure costs of existing sites etc

2 Local environment:

- political climate, stable or not
- regulatory and compliance issues on general company data and/or personal data
- the ability to exchange data within and outside the country, time zones among clients
- roads, infrastructure, telecommunications, utilities
- specific cultural issues, cultural norms, practices, language

3 Tax/Treasury/Legal:

- access to banking system
- government regulation on information in/out of countries, consider, regulations regarding data processing, paper invoicing, record retention and edifact rules
- exchange controls in/out of the country, requirements on location of the company's books, confidentiality rules

4 Human resources:

- total skill pool and skills levels
- language skills
- international accounting knowledge within the multi-entity, multi-currency environment

AMONG THOSE WHO HAVE DONE IT IN MALAYSIA...

Shell

Centralising operational activities is not new to Shell. ATRACC, Shell's regional shared accounting service unit in Kuala Lumpur, provides services to Malaysia, Philippines, Thailand, Singapore and Hong Kong, and to other parts of Asia-Pacific. Shell in Miri, Sarawak operates as a regional learning hub to run technical and finance training courses for Shell International Exploration and Production.

Standard Chartered

Another major believer in shared services, the Standard Chartered Group has invested over RM380 million since 2000 to put in place a broad range of product platforms to develop its next generation cash management products designed to provide customers with regional solutions. The Group pioneered the global hubbing concept in the region when it set up two global shared service centres — one in Kuala Lumpur at the Technology Park Malaysia and the other in Chennai, India.

HSBC

Meanwhile, HSBC has set up a group service centre in Cyberjaya serving a variety of functions including financial services processing, a call centre and a contingency centre.

IBM

Computer giant IBM has invested in four regional centres in the past six years, and is now set to launch another one in Malaysia, also in Cyberjaya. To be called the Asean Regional Contact Centre, it was granted MSC status in January and will operate in May with an initial staff strength of more than 60. IBM is constantly exploring opportunities to consolidate regional operations in Malaysia in view of several attractive benefits such as high availability of multi-lingual resources; excellent infrastructure, capacity, growth options and cost; competitive real estate cost and growth expansion options; and favourable government policy and support.

DHL

As for DHL, its DHL Asia-Pacific Information Services (DHL APIS), the regional IT hub responsible for DHL's operations in Asia-Pacific, was first established in Malaysia's MSC in 1998. In light of expanded responsibilities and operations, the regional IT hub has since evolved to become DHL GIS Cyberjaya, one of three strategic Global Data Centres serving DHL's worldwide network. The other two Global Data Centres are located in Scottsdale, Arizona, the US and the European Data Centre (currently located in Staines, UK) is in the process of being moved to Prague (Czech Republic) and will be fully operational in June 2004.

Cyberjaya was selected among numerous destinations investigated for the set-up of its global data centre. Cyberjaya's modern architecture, increasingly sophisticated IT and civil infrastructure, and pleasant low-rise, open landscaped areas lured the set-up of its RM200 million facility. The 100,000 sq. ft data centre currently has a staff strength of more than 400 full-time staff, comprising a mix of expatriate and local knowledge workers.

Homegrown acts are also making waves in the global shared services market. Scicom, which has six call centres in the country, services Nokia's Careline customer support operations for nine countries in the Asia-Pacific region. It is also researching the development of an equivalent to ISO certification for software development. Another local company, Ship 'N' Track Global, manages regional supply chain activities and logistics for NEC in the Asia-Pacific region.

Meanwhile, Sunway Group's Finance Shared Service Centre provides accounting and finance services to various business units of the local conglomerate in the areas of property development, property investments, construction, leisure and hospitality. It currently has a staff force of more than 90 persons involved in various spectrums of accounting and finance related services. In the company, it is also known as the Centre of Expertise and Efficiency in the areas of accounting and finance related processes, and benchmarks its services to best practices.

exposure. This makes them ideal candidates for strategy and R&D groups servicing global operations. ***(refer to Sidebar — Location, location, location ...)***

Malaysia is indeed fortunate that it is already on the radar screens of many of the world's biggest firms ***(refer to Sidebar — Among those who've done it in Malaysia)*** and the fact that its manufacturing sector, which comprises 35 per cent of the economy, is largely FDI-driven.

The global manufacturing industry is familiar with Malaysia's strength as an offshore hub for operations, management and R&D. It is our strength in services and

"Malaysia is indeed fortunate that it is already on the radar screens of many of the world's biggest firms … and the fact that its manufacturing sector, which comprises 35 per cent of the economy, is largely FDI-driven."

technology that is still relatively unknown. Leveraging on relationships within the global manufacturing community, our aim is to expand this familiarity to the services sector, which unknown to many, already comprises over half of the national GDP. This should augur well for the proliferation of FSSCs in the country.

The other challenge, of course, is for our service providers (a.k.a accountants) to rise to the occasion, to be able to fulfil the trust given by the MNCs and local companies alike. AT

Integrated Expectations

By Bob Leach

Companies can squeeze significantly more value out of their shared service centres if they pay close attention to IT, cultural and geographical matters. Bob Leach offers his guide to making the most of this ubiquitous resource.

Shared service centres have created huge commercial advantages for organisations around the world. But, now that the benefits of consolidation and standardisation have been achieved, senior managers are starting to ask where the next improvements are going to come from. It is therefore time to turn up the ratchet on shared service centres to the next level.

The concept of shared services is nothing new: companies in Europe have been consolidating functions such as payroll, accounts payable and accounts receivable in regional centres for at least a decade. The trend has been for these centres to provide a quality of service to the rest of the organisation that is at least as good as that offered previously in the individual business units.

In the early days of shared services in Europe, companies focused on basic integration into a single centre to gain economies of scale, labour cost reductions and better control of the services. Sometimes this meant that the centre would still be using several systems and different approaches to the same process, which made it hard to achieve real benefits. Firms quickly realised that they also needed to standardise the processes that the centres were using and make full use of the technology available to them. So, in the second wave of the shared services revolution, they re-engineered their activities into a single approach and implemented it on an enterprise resource-planning platform. Although this more ambitious approach increased the potential benefits of shared services, it also increased the risks. Some implementations struggled to achieve all the benefits envisaged at the outset.

The challenge that many organisations face is that, having enjoyed the initial advantages of shared service centres, it is hard to make those centres still more efficient or cost-effective. So how can finance teams respond to pressure from senior management to add more value to the business and to reduce costs further?

The good news is that the concept has been around for so long that there is plenty of best practice out there to learn from and plenty of expertise to draw on when designing, implementing and managing shared service centres. By working through a series of questions and decisions, organisations can develop an approach that allows for continuous improvement. Companies that are pushing the envelope of shared services are considering a number of areas for further improvement: the technology used, the cultural environment of the centre and its geographical location.

Several technological advances have been made in recent years, which the more advanced centres have embraced. Good examples include the use of document scanning and workflow systems. Together these technologies allow for the rapid electronic capture and transmission of documents such as supplier invoices. This facilitates approval procedures and ensures that queries can be tracked closely, taking many working hours out of the process and improving accuracy.

The creation of a new shared service centre, often in a new location away from the operational units, usually results in the recruitment of a large number of new employees — and, often, redundancies in the business units. In fact, it is not unusual for less than 10 per cent of the existing workforce to move to the new centre. This creates human stresses that have to be handled carefully, particularly since the goodwill of existing staff often needs to be maintained during the transition. For this reason, most successful implementations include a major element of focused change management, but it also provides a good chance to establish a new culture. The whole ethos of the shared service centre should be customer-focused, even though the customers are colleagues. To help develop this culture, some successful centres have gone beyond service-level agreements and created the role of liaison officer in order to maintain good relationships between staff in the business units and their colleagues at the service centre.

Early on in the evolution of service centres, staff were often organised in groups according to the country they served and a level of competition was encouraged between these groups. Companies have since found this to be counterproductive and have taken a process approach to organising staff. This provides more variety for the employees and fosters more of an overall team spirit.

Balanced scorecards have been introduced, in some cases as a way of monitoring performance. These focus not only on quantitative measures but also on customer satisfaction and, crucially, innovation. As is so often the case, the best examples of how a process or technology can be improved are provided by the people who operate them.

Perhaps a key issue for the future is work-life balance. Flexible hours have been introduced in some cases but other measures, such as job shares and sabbaticals, are still rare.

Finding the ideal location for the centre requires a number of factors to be balanced. A region may offer cheap rents and government grants, but is its communications infrastructure sound and does it offer a sufficiently skilled labour pool? The question of location inevitably raises the issue of offshoring, the term now applied to taking major processes to a different continent. This leads in turn to the question of whether outsourcing at least a part of the finance function should be considered but we have yet to see the large-scale removal of core financial processes so far.

Outsourcing comes with its own risks - for example, those associated with transferring employees — that Finance Directors need to understand. It is crucial to negotiate a sensible contract that provides for a reasonable sharing between the outsourcer and client of the risks and benefits that will arise from the deal. It is also important to establish the performance measures that will be applied, and to be able to bring the processes back in-house should these criteria not be met. These are basics, but it is surprising how often they are overlooked.

It is puzzling that financial outsourcing is still relatively uncommon. Perhaps this reflects the centrality of some of these processes to the overall control of a firm's operations — and a reluctance to hand that to a third party, particularly with the current focus on corporate governance.

Sooner or later, it is likely that the concepts of outsourcing and offshoring will come together. The major companies that offer outsourcing services will set up substantial operations in India and other developing nations, including China. If the questions of control and processing security can be answered, this combination is likely to be so powerful that finance directors will have to look at the business case very hard indeed.

It is no longer a question of whether to set up a shared service centre or not; it is one of how to make their services better. Organisations that make the right decisions at the start, build in the right time and resources for knowledge transfer and find ways to automate more processes will be those that deliver value.

> *"One thing you can say about a shared service implementation is that it never happens without strong backing from the senior executives in the company …"*
>
> **Gareth Morgan, Senior Director of European Financial Shared Services**
>
> **Bristol-Myers Squibb**

Case Study: Bristol-Myers Squibb

US pharmaceutical giant Bristol-Myers Squibb decided to set up a shared service centre for its European technical services and finance function in 1997. Initially, the idea caused heated internal debate. Issues ranged from local managers' concerns about losing control of their business units to scepticism that a centralised function could maintain compliance with local regulations.

According to Gareth Morgan, senior director of European financial shared services, support from the top was the key to success. "One thing you can say about a shared service implementation is that it never happens without strong backing from the senior executives in the company," he says.

The company selected Chester as the location for the centre because of its good communication links, competitive wage and development rates and proximity to existing business units.

Despite all the initial opposition, the centre achieved its target of cutting the company's recurring cost base by up to 40 per cent within a year. Morgan says the project's rapid success won over the sceptics and has given the company's finance directors more time to focus on business rather than bureaucracy. He is now considering ways of using new technology to make further savings.

Morgan lists two other essential factors for a successful move to shared services: planning and communication.

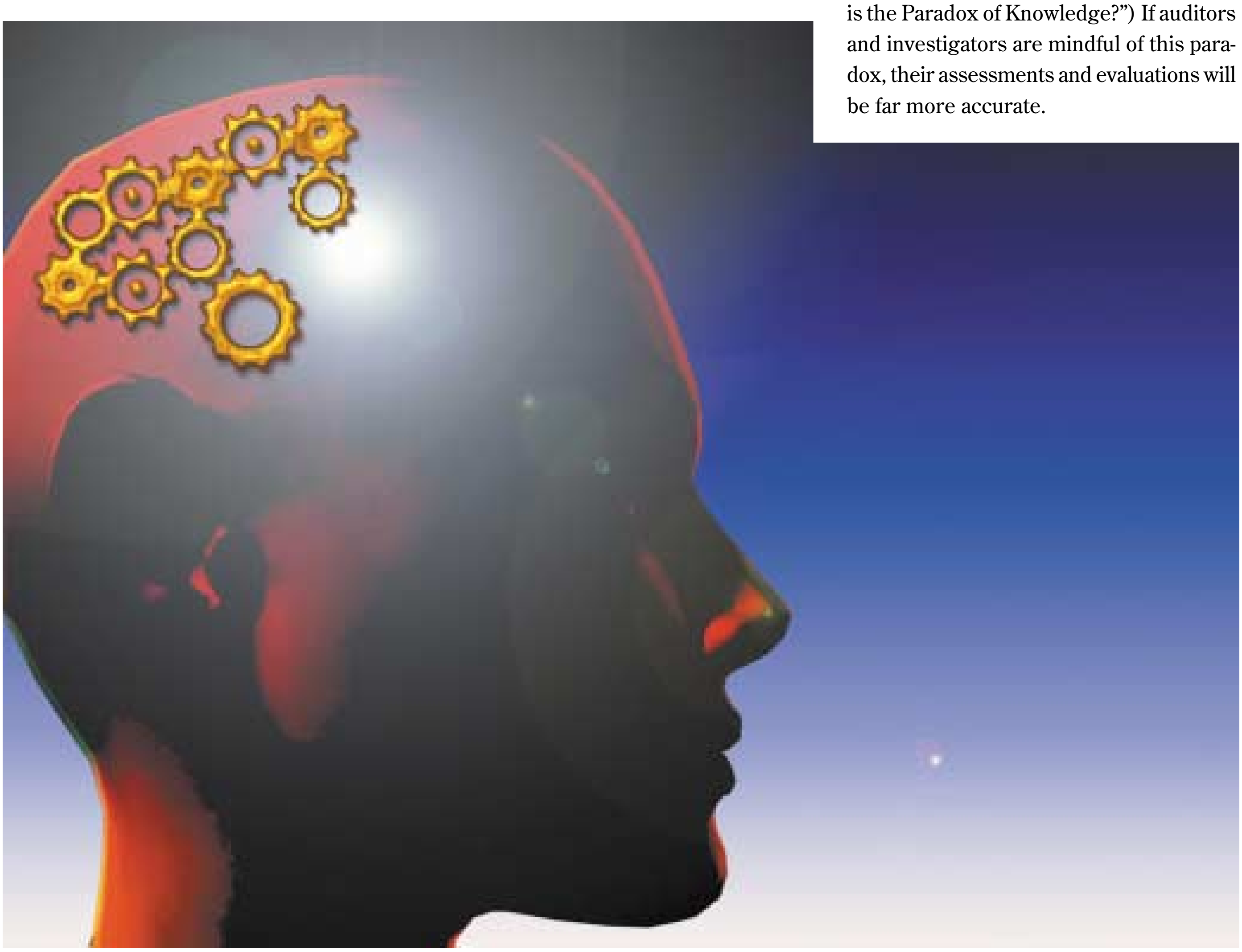
"Spend a lot of time on building in contingency plans, because this will help you to avoid confusion and the danger of interruption to the business during the changeover," he advises. "And communicate those plans as widely and clearly as possible so that people understand why you are doing it and what impact it is going to have." AT

Bob Leach is the Managing Director of Resources Connection, UK. This article is contributed by CIMA and it first appeared in *Financial Management*, CIMA's monthly magazine for accountants in business.

The Paradox of Knowledge

By Chetan Dalal
INVESTIGATION SPECIALIST

Sloth, or slowness when performing any activity or process, does not seem to stem from deceit. However, under certain circumstances, "sloth" could be a major red flag of a fraud. To illustrate, when a computer application is abnormally slow in its response time or processing, there is a high chance it is infected by a virus that is reducing the memory available for data processing. Similarly, when people perform any routine and simple duty abnormally slow, it is possible that their minds are preoccupied with deceitful thoughts that are dragging down their pace.



Cashiers, accountants, and storekeepers who perform daily routine tasks for many years should, by sheer dint of practice, be able to perform such duties at a brisk pace. These activities should become second nature to them. If this does not happen, and if these employees have considerable powers vested in them, then it is possible they are involved in some kind of fraud.

This factor of slowness or retardation could be a significant clue to fraud, which arises from a "paradox of knowledge" on the part of the employee. Although under normal circumstances, knowledge enables greater efficiency and speed in conducting one's duties, there are exceptional situations in which knowledge can actually result in inefficiency and sluggishness in performing those duties. (See sidebar, "What is the Paradox of Knowledge?") If auditors and investigators are mindful of this paradox, their assessments and evaluations will be far more accurate.

A CASE STUDY

A large hotel in India took over an amusement park with a restaurant, which provided buffet breakfasts, lunches, and dinners to customers visiting the park. The point-of-sale accounting system had one point of sale on the cashier's desktop computer in the restaurant. The system generated sales coupons at the cashier's counter, while the daily sales and collection reports were accessible only to the back office accountant in the main hotel.

When customers arrived at the restaurant, they purchased coupons from the cashier and entered the dining hall where they presented the coupons to the attendants who showed them to their tables. The coupons were printed and issued to customers each time a sale was affected, whether for a single customer or for a group. The point-of-sale software provided several sales reports, the most critical being the sales-collection report, which displayed the total sales value and total number of coupons sold for each breakfast, lunch, or dinner session. According to this report, the total sales value was the amount of cash that the cashier was expected to hand over to the back office accountant at the end of each session.

To prevent fraud and theft, the hotel established accounting and physical controls over the restaurant point-of-sale system and process:

Accounting controls: The attendants returned the customer coupons they collected to the cashier at the end of each session. The cashier counted and bundled all coupons and calculated the total amount of cash that should have been collected from customers. He then sent all the coupons and the total cash to the back office accountant. The cashier could not know whether or not there was any excess or shortage, because he did not have access to the sales-collection reports.

The back office accountant matched the total number of coupons he received from the cashier with the number of coupons sold based on the system's daily sales-collection report, which was accessible only to him. If the number of physical coupons exceeded the number on the collection report, it implied that collections recorded in the system and sales reported by the cashier were short. This was because the amount of cash the cashier handed over was less than the amount that was entered into the point-of-sale system. The cashier was accountable for any shortages in cash collected. A shortage of coupons implied that collections exceeded the amount of sales that were recorded.

Physical controls: A customer could get food only by possessing a coupon. Furthermore, the cashier wore a uniform without pockets and was frisked before he took over the cash counter and after he handed over the collection to the accountant and left the premises at the end of each day. There were security guards posted at each door of the restaurant, as well.

Red Flags Raised

These accounting and physical controls gave the hotel's management a high sense of security and comfort about the restaurant's point-of-sale process. Because management considered the cashier trustworthy, there was no rotation of duties. Instead, the cashier was given a place to stay in the staff quarters, and he worked all three sessions of breakfast, lunch, and dinner, with each lasting three hours. The cashier rarely went on leave and had only one day off each week.

Even so, the hotel's internal auditor could not help noticing one strange factor: The cashier was extremely slow in discharging his duties. He would take a long time to tally and agree upon his cash balance at the end of each session.

The internal auditor could not understand the reason for the cashier's slow performance. The job did not require great intelligence nor any complicated advanced technology. All the cashier had to do was consolidate and count the coupons submitted by the attendants, determine the amount of cash he should have collected, and compare that amount with the amount that was actually paid. The cashier could come up with only three outcomes: excess, shortage, or correct physical cash balance. There was no scope for reconciling the differences because the cashier did not have access privileges to any sales-collection report.

So what was slowing the cashier down? Why was he taking hours to count the coupons and hand over the cash? The standby cashier did not take as long to make his count on the day that the cashier was on leave. This implied that there was some factor that was retarding the regular cashier's sales-collection accounting process at the end of each session.

Management was satisfied that there were good internal controls over the point-of-sale system, because the back office accountant matched the physical cash and coupons collected by the cashier to the total sales collections and number of coupons sold that were produced by the daily collection report. Historical data showed that the accountant had not noticed any significant discrepancies. Therefore, management believed that there was no scope for manipulation of any kind by the cashier. Moreover, management believed the point-of-sale software would prevent such manipulation, because it was a standard package developed by a known and reputable vendor that was extensively used in the hotel industry.

The next red flag that the internal auditor saw was a variance in food consumption of about 20 per cent. Consumption of food was not supported by commensurate sales collections. The internal auditor wondered whether the cashier could be involved in suppressing sales.

Inquiry Yields More Questions

According to standard auditing practices and assurance standards in India, auditors can apply extended or modified procedures to dispel their suspicions or confirm their doubts in situations of red flags. In the case of the hotel's restaurant, the point-of-sale software was quite comprehensive and generated several types of sales reports that allowed the internal auditor to review the sales collection reports again — particularly the late-night sales. Something in the report intrigued him. Every night, just before closing time, about 10 to 15 customers came in and bought single coupons, each worth 100 rupees (Rs) (US$2.20). According to the daily collection report, each of these customers would pay by tendering cash in notes of Rs 1,000 (US$22) and collecting Rs 900 (US$19.80) in change.

The internal auditor believed it was too much of a coincidence for so many single customers to make the same purchase each night during late hours, so he decided to pursue this line of investigation further. He checked all single coupon sales for which collections were received in Rs 1,000 notes and where Rs 900 was refunded and found that as many as 70 per cent of the single coupon sales were transacted in this peculiar manner. Such refunds were made at least 10 times a day to groups of about 15 people in quick succession. Because Rs 1,000 notes are rarely used in India, particularly in amusement parks by children and young adult customers, the auditor was certain there was something that more than met the eye.

The Nature of the Fraud

To prove his suspicions, the internal auditor undertook covert surveillance during the late night hours and observed something that gave him an idea of the kind of fraud that was being perpetrated. The cashier was actually suppressing sales of coupons and siphoning out the collections. The fraud was executed in two phases.

1 **Suppression of sales:** The cashier generated replica coupons using unauthorised software he had installed on his computer. This software could produce exact copies of the actual coupon formats generated by the point-of-sale accounting system.

During the dining sessions, the cashier alternated between the official point-of-sale software and the unofficial software. When there were fewer customers, he would switch over to his own software to generate, print, and issue replicated coupons to unsuspecting customers. The customers then presented these fake coupons to the attendants, who did not suspect any foul play. The mixed lot of fake and genuine coupons collected by the attendants were returned to the cashier at the end of each session. The cashier would use his unofficial software to determine how many fake coupons had been generated and then remove those coupons using a tiny identification mark he had designed.

The cashier was slow to count the coupons and cash at the end of the day because he needed to weed out, destroy, and trash the fake coupons from all the coupons returned by the attendants. The remaining official coupons were "innocently" submitted back to the accountant in a routine manner. The occasional small shortages or excesses that occurred were the genuine differences that would have happened in normal cash handling, had the cashier been honest. In addition, the cashier also had to spend considerable time deleting unwanted files, data, and reports and initialise his software to ensure his safety.

The cashier was able to skim 20 per cent of actual sales in this manner. Because the restaurant sold buffet meals, it had no quantitative control over consumption of individual food items through kitchen order tickets that could be correlated with billings. This further helped the cashier's scheme because it hid the extra consumption of food compared to the amount that was billed.

2 **Siphoning out the sales:** The suppression of sales was undoubtedly ingenious, but it was the relatively easy part. What was even more imaginative was the procedure for smuggling out the cash the cashier skimmed.

The hotel's management asked the auditor how the cashier transferred the cash out of the premises, when there were physical controls on the cashier such as frisking and a uniform without pockets. The auditor explained that the cashier had several accomplices who came in several times each day and bought single coupons of Rs 100 each by tendering 1,000 rupee notes. The cashier would then covertly refund an amount in excess of the Rs 900 the "customer" was owed, which allowed the accomplices to smuggle out the unofficial cash collection. This was done either during crowded hours when the excess refund could be explained as an error if it was noticed by someone or during late-night hours when this objective could be achieved clandestinely. As customers, the accomplices would have the freedom of walking out, unquestioned by the

WHAT IS THE PARADOX OF KNOWLEDGE?

In the case study, the complex details of the restaurant cashier's scheme forced him to perform his routine duties more slowly and gave the internal auditor his first clue that a fraud was being committed. This paradox of knowledge proved to be his undoing. To understand this paradox, try this simple test. Rapidly identify the following colours:

Readers should have no difficulty identifying the colours. Now try the same test again with different exhibits:

White	Green	Red
Pink	yellow	Black
Purple	Orange	Maroon

In all probability, if readers try to rattle off the colours quickly, they will read the words and not the colours. They might call out the words white, green, and red when the colours are actually dark blue, yellow, and white. If readers follow the instructions and identify the colours correctly, they will notice a marked sluggishness, compared to the first test, in correctly identifying the colours. This is because the reader's mind is likely to confuse the knowledge of colours with the knowledge of the meaning of the words.

This confusion happens because the human intellect examines and responds to data on one dimension at a time very quickly. When it reads words or identifies colours independently, it can do so with speed. But when the two kinds of data sets are merged, the spontaneity is lost and consequently, the response time perceptibly falls. Thus, in this case, the added knowledge of words actually slows down human response.

security guard, with the extra money in their pockets.

The magnitude of the fraud was staggering. The cashier was able to skim Rs 100,000 (US$2,197) each day out of the restaurant's average daily sales of Rs 500,000 (US$10,989).

Look for Fraud Symptoms

Although businesses can implement excellent systems and impeccable accounting and physical controls, human ingenuity surpasses everything. Most perpetrators of fraud are intelligent and ingenious. In many such situations, the seven deadly sins can be very important red flags in unearthing and detecting frauds.

Abnormally slow performance of routine duties is certainly symptomatic of the existence of fraud, particularly where the suspect is reasonably intelligent and the given situation does not require a high degree of intelligence and application. In each such case, the auditor must determine whether or not there could be a *deliberate* factor of retardation that could be slowing down the given process.

In this particular case, there were other issues that the hotel's management missed such as:

- Dependence on the cashier.
- No rotation of duties.
- Failure to customise and test the point-of-sale software.
- Absence of a desktop audit to ascertain whether or not there were other malicious programs on the computer.
- No accountability for the adverse consumption/sales ratio.

Another very important control the restaurant should have implemented was to require the attendants to submit the coupons directly to the back office accountant rather than to the cashier. This would have made it even more difficult for the cashier to get away with this fraud. One important lesson to be learnt is that all red flags must be viewed collectively, and one must be mindful of all their implications to detect fraud. AT

Extracted from *ITAudit*, Volume 7, 1 January 2004. Reprinted with permission of IIA Inc.

For enquiries, please contact The Institute of Internal Auditors Malaysia at 03-9282 1148 or e-mail: ijdm@po.jaring.my

Chetan Dalal, CIA, CISA, B.Comm, FCA, CFE is presently in practice as an investigation specialist, information systems auditor, and internal auditor in India. He is a Practicing Chartered Accountant in Mumbai (Bombay) India and graduated from the Academy of Accounting-Institute of Chartered Accountants of India (ICAI). Dalal is author of *Detection of Frauds,* a fraud detection manual for the professional development committee of ICAI; *Guidelines on Internal Audit in Advertising and Publicity Enterprises; Guidelines on Internal Audit in Travel Industry; Audit Procedures and Reporting in Circumstances of Incomplete Records; Case Studies on Detection of Frauds; Use of Software in Audit;* and *Audit Practice and Procedures with Special Emphasis on Detection of Frauds.*

Dalal runs workshops on fraud detection in India for ICAI. He also writes articles for professional and corporate magazines both inside and outside India such as *Business India, Economic Times, Inside Fraud, Fraud Newsletter* (London), and *White Paper* (US), as well as for professional journals. In addition, he participates in research projects for ICAI. Dalal serves as a director in the India Chapter of the Association of Certified Fraud Examiners (US) and is a member of the Research Committee of the Bombay Chartered Accountants Society. He can be contacted at e-mail: chetandala@hotmail.com

Are Managers Myopic? Evidence from Take overs

By Yusuf Karbhari & Rama Prasad Kanungo

The controversy over take overs has been ongoing since the 1960s. Often, take over attempts are referred to as corporate raiding or predatory behaviour not only for less privileged firms having weaker internal control mechanisms and unresolved debt to equity ratios but also for healthy businesses.

In 1985, *Forbes* reported that "*As the American economic environment changed, predators emerged from under rocks and began to prey on healthy businesses. Is there no stopping them? Will they devour us all?*"[1] Since then, the situation has not changed and take overs are still perceived as a tactical management manoeuvre to exploit defenceless companies and their compliant stockholders. However, this exploitation remains uncertain since the profits generated by bidders are almost short-term gains and are thus misleading in the long term. In this article, we offer a brief review of the previous studies that have been undertaken and examine and summarise the effect as well as the potential trade-off concerning the take over process. We further examine whether managers are short-sighted in accepting a take over bid when their own interest and incentives are at stake.

In general, two principal components behind the rationale of take overs can be identified. First, a take over is undertaken to achieve synergies between the bidder and the target firm. Second, it is undertaken to restrain the self-serving managers. In synergetic take overs, the potential combination of bidder and target firm generates efficiencies by combining the resources and operation, whilst, the disciplinary take overs, gains are attained by restricting the non-value maximising investments of the managers by aligning them to the collective interest of shareholders. The shareholder wealth gain theory emphasises that take overs lead to increased profitability by combining strength and resources where as maximisation of the managerial utility theory proposes that an increase in firm size and better managerial benefits have an impact on profitability.

In both cases, profitability can be examined in two ways, first by evaluating the financial data based on accounting numbers of firms and second, by examining the returns to shareholders over the pre and post take over

[1] *Forbes*, 11 March 1985, pp. 134.

period. The theoretical abstractions of the previous studies on take overs highlight that take overs favour shareholders as they receive considerably higher premiums. On the contrary, bidder shareholders receive on average a four per cent premium in hostile take over situations, and almost zero in the case of mergers.[2] Nevertheless, the combination of resources and operation generates gains in take overs for both the parties neither creating any monopolistic power. Take overs allow managers to eliminate non-value maximising investments and to remain clear of negative NPV projects. Interestingly, in the process of take over programmes like, golden parachutes for top level managers do not harm shareholders collective interests. Despite many drawbacks, there are several benefits of take overs that make them increasingly popular. Overall, the market for corporate control receives large financial gains through shareholders and the economy following any take over. Also managerial control for better internal monitoring makes a take over interesting to both the bidder and target firms.

The relaxation of restriction on mergers imposed by the antitrust law was one of the major reasons for take overs to be more acceptable in the US. At the same time deregulation in the financial services, oil and gas industries and media services created a favourable environment for take overs. For example, in the case of the UK, the market for corporate control is effectively more proactive, as there are few institutional or legal barriers. In the UK, the threat of a take over is perceived as a disciplinary mechanism on management, a replacement arrangement to induce more efficient managers replacing inefficient ones. This is unequivocally taken as a sign of a corporation in the pink of health. Reports suggest that take overs in Europe are becoming more common as compared to the last two decades. In the context of France, in 1997, Promodes, the supermarket chain, announced a hostile take over bid for two rival chains while the holding company Artemis also announced a hostile bid for the conglomerate Worms and Cie.[3]

"As the American economic environment changed, predators emerged from under rocks and began to prey on healthy businesses. Is there no stopping them? Will they devour us all?"

***Forbes*, 11 March 1985**

Myopic Managers or Intelligent Market?

Recent studies have shown that take overs may not necessarily prove to be a mechanism for correcting managerial failure. More importantly, the performance of acquired companies frequently fail to deliver the expected benefits and, indeed, a worse show of performance is the more common result of take overs.[4] Therefore managers must continuously improve the efficiency of firms in such a way that they can thrive in the market better than their competitors. In this case, an effective market and better internal mechanisms make firms better off than their counterparts. However, managers often fail to realise this aspect and firms then attract possible take overs and acquisitions. Generally, during a take over, reorientation and redundancies always affect the performance and employment of the firms. Senior management in firms usually accept a take over bid as a potential threat because take overs generally replace and streamline management cadres. Hence, senior management always try to prevent the firm from being taken-over. This is achieved by concentrating on maximising short-term profitability in order to keep up the share price by making a hostile bid more expensive. In addition, managers can distribute a higher proportion of profits in the form of dividends to shareholders in order to generate loyalty to the existing managerial team. On the other hand, a study undertaken in the US banking industry reports that take overs provide managers with the incentives to maximise the firm value.[5] The study highlights that:

"The hypothesis that take overs provide managers with the incentive to maximise firm value is tested by examining the relationship between profitability and state statutes governing take over activity among banks. The evidence indicates that firms in states with an active take over market are more profitable. When take over activity is restricted, increased use of other mechanisms that provide an incentive to maximise firm value, such as concentration of equity ownership and management ownership of stock, is observed."

Nevertheless, it is proposed that the higher institutional equity holdings and threat of take overs make managers more defensive of their positions and thus behave myopically disregarding their long term benefits while emphasising more on short term benefits. Previous literature describes this as a legitimate concern of managers. On the other hand, some argue that it stems from eminent fear of sudden change to them. Furthermore, the interest of managers is not always identical as with the interest of firms. Hence, a major shift incurred during take overs generates a conflicting interest between managers and their firm owners. The incentives offered by compensation contracts effectively discourage managers to go for non-value maximisation activities. The increase in share price observed following an incentive scheme announcement is much larger than short-term contracts. The market reacts to this announcement and brings in good earnings to managers. At the same time stock prices increase in the market. Most managers fail to recognise this technique employed during take overs due to their inability to understand that the market response makes them more dependable on take over changes.

It is also accepted that when a major change occurs in an organisation, an intense variation of organisational strategy transpires creating stiffer competition for winners and losers thus, bringing in changes that affect managerial incentives. This makes most managers, including top level managers, uncertain and unpredictable. As a solution to this conflict, shareholders devise a compensation package for

[2] Halpern, P.L.(1973), "Empirical estimates of the amount and distribution of gains to companies in mergers", *Journal of Business*, vol. 46, No. 4, pp. 554-575.

[3] *Financial Times*, 30 September, 1997.

[4] Franks,J. and Mayer,C.(1996), "Do hostile takeovers improve performance?", *Business Strategy Review*, Vol.7, No. 4, pp. 134-144.

[5] Schranz, M. S.(1993), "Takeovers Improve Firm Performance: Evidence from the Banking Industry", *Journal of Political Economy*, Vol.101, Issue. 2 (April), pp. 299-326.

retrenched managers, commonly known as 'golden parachutes'. During a take over, a clear absence of the possibility of dictating a course of action for managers is always compensated by a contract to provide incentives for value maximisation. The contract could take the form of a direct ownership stake in the firm or an indirect ownership in any spun-off subsidiaries. This contract allows managers to contain the non-value maximising investment and diversification. But this termination of contract between shareholders and managers sends positive signals to the stock market. Subsequently, the market reacts favourably and stock prices rise effectively in the market. At that time, managers see the benefits of the contract and appreciate their desirability. However, this fails to restrict retrenchment but helps the firm to look to gain in the stock market. Analysts and economists term this as a market behaving intelligently where managers are myopic in figuring out their benefits and fail to retain their position. On the other hand, it could be argued that to date relatively little contextual evidence has been offered that explains this issue. Essentially, when managers have a considerably lesser stake in the firm and are compensated otherwise, they become keen to take action to increase the accounting earnings of the firm rather than focus on the market value of the firm. On some occasions, managers may fail to understand the underlying force of the market index and misjudge the stock value. But the market is always responsive to stock movement in such a way that it reveals market value more than the current earnings of the firms. It precisely predicts that the price and earnings ratio differs considerably among security indexes signalling that the market is valuing something other than only current earnings. The response of the market is reflected on the security price and thus, increases the value of the firm. In particular, these value stocks yield only a few immediate cash flows but high future earnings and better future cash flows. When the market does not value future earnings, even for up start companies it would seem that the market has its own intelligent message for the shareholders. We have much categorical evidence that stock prices respond positively to the announcement of take overs, when an increased investment and organisational restructuring is disclosed.

Also, an efficient market incorporates transparency of all public information to help investors make rational judgements in order to consolidate their investment portfolio.

Some critics argue that the market is not as efficient as it seems to be, rather when institutional holdings increase and the task of institutional investors to show high returns on a quarterly basis surmounts, at that point the market is unable to respond as effectively as it is supposed to. This pressure on institutional investors is perhaps the key cause of the pressure on firms to generate high current earnings on a quarterly basis. This institutional pressure can lead firms towards a take over. However, markets recognise the take over bid and may react positively. In evaluating take overs from a longer perspective evidence shows that shareholders gains or losses are efficiently distributed to other constituents of the firm and while it seems innocuous, it could affect market decision. However, the stock market counters such effects with better stock prices and enhanced investment opportunities from investors. This evidence clearly indicates that the market is intelligent enough to assess the effect of take overs in terms of firm value where as managers behave short-sightedly and fail to capture the logic of market reaction.

A study by Malatesta (1984) finds that such activities are value increasing for a target firm but value decreasing for the acquiring firm when take overs are undertaken for the sole purpose of restraining the managers and their self discretionary activities.[6] Walkling and Long (1984) find that the existence or absence of managerial resistance to a take over bid is directly related to the target firm's management and wealth change due to take overs.[7] Such conclusions indicate managers' insecurity over take overs make them more vulnerable to make misjudgements and thus take short-term decisions that are detrimental to themselves.

Conclusion

Take overs are perceived as a management manoeuvre to gain greater market access for the firms. At the same time, a take over is considered to be one of the principal activities of corporate restructuring. The 'market efficient' hypothesis reflects that the equity market recognises the gain for the firms following a take over where as the 'managerial myopic' hypothesis reiterates that managers fall short to notice the market value of the firm and thus fail to identify the long-term incentives associated with take overs. From the point of economists and finance analysts, markets during take overs benefit shareholders, the economy and the firms. But it makes managers weary of their position and status irrespective of better compensations. Managers may never feel secure with any contractual incentives as they blame take overs for the retrenchment and realignment. But the good news is that the recent relaxation of regulation and flexible public policy allow them to relocate their position.

Overall, take overs financed with cash and debt generate larger benefits than those accomplished by the exchange of stocks. But the market response to exchange of stock is more pro-active where the market acts intelligently in forecasting the effects of a take over better than cash and debt generated take overs. This evidence clearly shows that the market is intelligent enough to assess take overs more categorically while managers fail to do so. Some other aspects such as the hubris theory of take overs and the free cash flow theory of take overs require further detailed investigation. Our forthcoming papers in this series will highlight these issues along with additional aspects of take overs in greater detail. AT

Dr. Yusuf Karbhari is a Reader in Accounting and Director of the Asian Accounting, Finance and Business Research Unit, Cardiff Business School, Cardiff, UK., e-mail: Karbhari@cardiff.ac.uk, Tel.: +44 (0) 29 2087 6057.

Rama Prasad Kanungo is attached to the Doctoral Programme, Accounting & Finance Section, Cardiff Business School, Aberconway Building, Colum Drive, Cardiff, UK., e-mail: KanungoRP@cardiff.ac.uk, Tel.: + 44 (0) 29 2087 6542.

6 Malatesta, P. (1983), "The Wealth Effects of Merger Activity and Objective Functions of Merging Firms", *Journal of Financial Economics*, Vol.11, April, pp. 155-181.

7 Walkling, R. and Long, M. (1984), "Agency Theory, Managerial Welfare, and Take Over Bid Resistance", *Rand Journal of Economics*, Vol. 15, Spring, pp. 54-68.

Environmental Reporting in Malaysia

A Survey of Accountants' Perceptions

By Abdul Latif Shaari, Nik Nazli Nik Ahmad & Maliah Sulaiman

Environmental reporting has seen substantial advancement in developed countries such as the US, UK, Europe, Australia and New Zealand, in recent years. Such development may be seen as a reflection of the increased public awareness and concern with the negative impacts that businesses inflict on the natural environment. Issues such as ecological destruction, depletion of natural resources, increasing levels of pollution, global-warming, acid rain, and deforestation have suddenly emerged at the forefront of public debate. This public concern has been considerably heightened due to extensive media coverage highlighting major environmental disasters around the world. On the local scene, news captions of toxic waste dumping, illegal logging, open burning and indiscriminate land clearing also come to mind.

Though the level of public concern and awareness, as well as the pace of development may be different in Malaysia, there also appears to be increasing concern over the externalities of businesses on the local scene. Such concern has been partially matched by some encouraging responses from the accounting profession and the government. To illustrate, the introduction of a new category in NACRA's Best Annual Report Awards, specifically for Environmental Reporting, in 2000, as well as the more recent launching of the Malaysian Environmental Reporting Awards (MERA) in 2002, by ACCA (Malaysia) appears to suggest that there is some interest in this emerging field.

However, a recent survey by ACCA (Malaysia) reveals that the level of environmental reporting by companies in Malaysia is still very low. According to the survey, though the number of reporting companies has grown from 25 in 1999 to 35 and 40 in 2000, and 2001 respectively, these figures represent a mere 5.3 per cent, 7.0 per cent and 7.7 per cent of the companies listed on the KLSE main board (ACCA, 2002).

The question that arises from these figures is "Why is this so?" "Can the low level of reporting be partly attributed to a lack of awareness on the part of accountants?" "What importance do accountants attach to environmental reporting?" Finally, another burning question is " To what extent do accountants in Malaysia perceive that they have a role to play in environmental reporting?"

This article reports the results of a larger exploratory survey on environmental reporting. Our study focused on two major issues, accountants' perceptions on the importance of environmental disclosures in company annual reports and their perceptions on the role of accountants in environmental reporting. The results of this survey provide some interesting insights into Malaysian accountants' opinions of environmental reporting and the profession's role in environmental reporting. The paper raises some important questions for reflection. In particular, is the low level of environmental reporting by Malaysian companies due, in part to a lack of awareness amongst Malaysian accountants? Or alternatively, are accountants generally aware of environmental reporting, but perceive it to be not important and/or not the domain of accountants? If so, does this spell a need for the accounting profession to educate accountants on environmental reporting and its relevance to the profession? The next section of the paper briefly discusses environmental reporting and the role of accountants with regard to environmental reporting. Next, the survey is described. This is followed by a discussion of our findings and a comparison with the findings of a similar U.K. study. Finally, conclusions and recommendations are presented.

Environmental Reporting and the Role of Accountants

Environmental reporting is defined as *"… the process of communicating the environmental effects of organisations' economic activities to particular interest groups within society and to society at large"* (Gray, Owen and Maunders, 1987:ix). Of late, it has been increasingly accepted, particularly in the developed countries, that environmental reporting is important as it provides information on such matters as environmental liabilities including soil contamination, air emissions etc., which are relevant and necessary in business decision-making (Chadwick, Rouse and Surma, 1993; Li, 2001). Environmental reporting would also encompass information related to asset revaluations, cost analysis in energy use, investment appraisal, as well as assessing costs and benefits of environmental improvement programs (Boyce, 2000). Despite this apparent consensus within the accounting literature on the importance of environmental reporting, the level of such reporting in Malaysia remains very low. The question that comes to mind then, is this due to the lack of awareness on environmental reporting amongst accountants? This is what the article hopes to examine in the survey.

The role of accountants in environmental reporting has been subjected to much debate in the literature. More recently, however, there appears to be an increasing recognition of the role that the profession has in this field, particularly in the developed countries, i.e. US, UK, and Europe. A challenge more than a decade ago, by Mike Lickiss, former president of the Institute of Chartered Accountants in England and Wales (ICAEW) in 1991, suggests that the accounting profession needs to respond to the environmental agenda. Even then, Lickiss argued that:

"In responding to the challenges posed by the environment, which is our natural wealth, all aspects of accountancy including financial reporting, auditing, management accounting and taxation will have to change. In doing so, there will be an impact on all members of the Institute whether in public practice or in commerce and industry and whether working at home or abroad" (Lickiss, 1991: 6).

Many authors also attest to the same view (Lodhia, 2000; Medley, 1997). Unfortunately, however, response from the ac-

countants in Malaysia, currently, appears to be very slow, despite some publications and programs organised by professional bodies such as the ACCA and the MIA. Consequently, it remains to be seen whether practicing accountants share the same view that they have an important role to play in environmental reporting. The survey also examined this issue.

The Survey

Three hundred (300) questionnaires were distributed by mail to members of the MIA, through the kind assistance of the Institute. A total of 45 respondents participated in the survey, giving a response rate of approximately 15 per cent. No follow-ups were conducted as the questionnaires were mailed by the MIA and we were unable to identify the non-respondents. Respondents comprised 60 per cent males and 40 per cent females. They came from a variety of backgrounds, i.e. public sector (8.9 per cent), accounting firms (17.8 per cent) and other private sector such as plantations, housing developers, banks and finance companies (73.3 per cent). A majority have working experience between 4-6 years (66.7 per cent), another 22.2 per cent have worked for between 7-9 years, whilst the remaining 11.1 per cent have working experience exceeding 10 years.

Results

On a scale of '1' (least important) to '5' (most important), respondents were asked to assess the importance of environmental disclosures in annual reports. As Table 1 shows the mean response is 3.89, which may be interpreted as leaning towards important. The standard deviation is also low, at 0.61, reflecting that the respondents generally shared the same view on this matter. It is also interesting to see that a total of 96 per cent rated '3' or higher on this question.

With regard to the role of accountants in environmental reporting, respondents were presented with seven statements of opinion. The respondents were then asked to indicate the extent to which they agreed with each of these statements, on a 5-point scale, ranging from '1' (strongly disagree) to '5'(strongly agree). These statements were extracted from a similar study done in the UK by Bebbington et al. (1994).

Table 2 reports a summary of the responses to the statements of opinion, together with the mean response for each statement, and also compares the findings of our survey to those in Bebbington *et al.'s* study. The table reveals some interesting findings. First, the similarity between the mean responses in our study and the UK study is remarkable. The table shows that the opinions of UK and Malaysian accountants on their role in environmental reporting are broadly similar. The relatively positive responses for items 1-3 suggest that accountants generally accept the view that they have a role to play in helping companies disclose environmental-related information. However, the lower mean on item 4 (which, interestingly is similar to the mean response in the UK study) indicates that while accountants agree that they have some role to play in environmental reporting, they do not feel that accountants should be the 'main players'. Finally, the relatively negative responses on items 5, 6 and 7 confirm that accountants do agree that they can contribute to environmental-related matters. The above results suggest that accountants in Malaysia do have some awareness of environmental reporting and that they need to have an active role in it. However, the fact that they disagree with the statement that accountants should become the primary initiators in environmental reporting, indicates that there needs to be more concerted efforts towards educating accountants on the need for them to play a major role in the environmental agenda.

IMPORTANCE OF ENVIRONMENTAL DISCLOSURES IN ANNUAL REPORTS

	Neutral	Important	Most Important	Total
Frequency	14	21	8	43
Percentage	31%	47%	18%	96%
Mean				3.89
Std Deviation				0.61

Conclusions

The conclusions from this survey regarding the perceptions of Malaysian accountants on the importance of environmental reporting and their role in it can be summarised as follows:

- The accountants generally have a positive attitude towards the disclosure of environmental information in annual reports, and feel that this is important;
- The accountants do perceive that they have some role to play in environmental reporting; and
- However, the accountants do not generally feel that they should be the primary initiators of any attempt at environmental reporting.

One major implication of the survey is that despite some positive efforts by professional accounting bodies such as the ACCA, in promoting environmental reporting, more needs to be done to create a higher awareness amongst accountants in Malaysia on environmental reporting and its relevance to the profession. Increased awareness amongst the accountants on environmental reporting and the role of the accounting profession will provide the much needed impetus to further develop the newly emerging field of environmental reporting in Malaysia. This, followed by adequate training of accountants in environmental-related issues, by the professional bodies will ensure that the profession has fulfilled its obligatory function of assisting business entities to "provide information that is useful for business decision-making".

The present survey has given rise to several additional questions. An important question relates to whether there is a need for incorporating environmental accounting education within the university accounting curriculum, as well as the professional training curriculum of accountants.

Another related question pertains to accountants' opinions on environmental accounting being an important discipline within accounting and whether they perceive environmental accounting education to be necessary and important. The answers to these questions will be provided in the second part of this article. Education is crucial, because, to quote Professor Rob Gray, the renowned expert on environmental accounting and reporting, and currently, the Director of the Centre for Social and Environmental Accounting Research (CSEAR), at the University of Glasgow, in his book "Accounting for the Environment" (with Jan Bebbington and Diane Walters; 1993: 36):

"*Until accountants in practice and industry adopt a more positive attitude to the environment in general and environmental accounting in particular, the profession must remain in the realms of guesswork and speculation. This is not a very professional response to the challenge of the environment*".

Therefore, our final message to the accountants in Malaysia is: the ball is in our park. Let us make a concerted effort to fulfil our professional responsibility on the environmental agenda! AT

COMPARISONS BETWEEN UK ACCOUNTANTS' AND MALAYSIAN ACCOUNTANTS' OPINIONS ON THEIR ROLE IN ENVIRONMENTAL REPORTING

Item	Statement of Opinion	UK Accountants' response*+ (%)							Malaysian Accountants' response* (%)						
		5	4	3	2	1	m	SD	5	4	3	2	1	m	SD
1	Accountants should contribute to the environmental sensitivity of their companies	13	27	44	12	1	**3.4**	0.9	16	24	51	7	2	**3.4**	0.9
2	The accountant should be involved in the preparation of environmentally related information for management.	8	28	40	18	5	**3.1**	1.0	11	25	32	25	7	**3.1**	1.1
3	The accountant should be involved in the preparation of environmentally related information for public disclosure.	8	28	35	19	7	**3.1**	1.0	16	33	29	18	4	**3.4**	1.1
4	If environmental disclosure is inevitable, the accountant should be a primary initiator.	6	13	38	24	15	**2.7**	1.1	7	14	26	42	11	**2.6**	1.1
5	Disclosure of environmental information is a subject to which I have not given much thought.	17	18	31	19	12	**3.1**	1.3	9	21	32	19	19	**2.8**	1.
6	Environmental issues have nothing to do with accountants.	1	9	27	33	28	**2.2**	1.0	2	9	28	30	30	**2.2**	1.1
7	The accountants' job is sufficiently demanding without worrying about environmental issues.	4	9	32	31	21	2.4	1.1	2	23	27	25	23	2.6	1.1

+Bebbington et al. (1994); *5 – strongly agree, 1 – strongly disagree; m = mean; SD = standard deviation.

References

Boyce, G. (2000), "Public Disclosure and Decision-making. Exploring Possibilities for Financial, Social and Environmental Accounting", *Accounting, Auditing & Accountability Journal, 13, 1*, pp. 27-64.

Bebbington, J., Gray, R., Thomson, I., & Walters, D. (1994), "Accountants' Attitudes and Environmentally-sensitive Accounting", *Accounting and Business Research*, *24, 94*, pp. 109-120.

Chadwick, B., Rouse, R. W., & Surma, J. (1993), "Perspective on Environmental Reporting", *The CPA Journal*, *63,1*, 18-23. Retrieved, April 5, 2004 from Gale Group database.

Abdul Latif Shaari is a Master of Management graduate, Management Centre, International Islamic University Malaysia (This article is based on a survey undertaken as part of the author's Master of Management project paper).

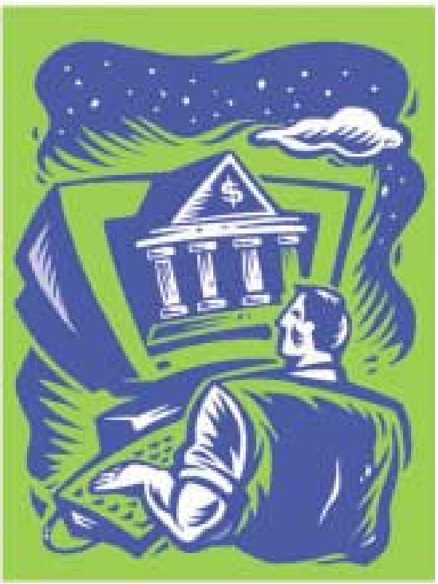
Nik Nazli Nik Ahmad and Maliah Sulaiman are Associate Professors, Department of Accounting, Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia.

The authors gratefully acknowledge the assistance of MIA in the distribution of the questionnaire surveys. Thanks to all the respondents who participated in the survey.

Bridging the Gap Between Basel II & IAS 39

By Saravanan Ramasamy

Financial institutions are the cornerstone of the global economy and the collapse of these institutions can definitely cripple the momentum of the global economic growth. Thus, these financial institutions have to be effectively regulated to avoid the possibility of any avoidable risks. While the banking industry has been exploring ways to improve the prudential supervision of banking business, accounting professionals have been delving into ways to improve the measurement and reporting of financial instruments held by the financial institutions with the end-goal of making bank financial statements more transparent.



The banking industry's focus was on the ways to align levels of capital adequacy more accurately with the risks faced by banks. Their recommendations are clearly laid out in what is known as the New Basel Capital Adequacy Accord, dubbed as the Basel II. The proposed capital framework consists of the following three pillars:

1. **minimum capital requirements**, which seek to refine the capital adequacy measurement framework.
2. **supervisory review** of an institution's capital adequacy and internal assessment process.
3. **market discipline** through effective disclosure to encourage safe and sound banking practices.

In a similar vein, the accounting profession has issued International Accounting Standard (IAS) 39, the standard for financial instruments. It is indeed one of the most revolutionary standards issued by the International Accounting Standards Board (IASB) to date. The need for this new standard on financial instruments was mainly due to the current wide range of alternative measurements, which led to incomparability, and a number of unrecognised financial assets and liabilities, particularly derivatives. The objective of the new standard is to establish principles for recognising, measuring, and disclosing additional information about financial instruments for companies, which establish the financial statements in accordance with IAS. This Standard significantly increases the use of fair value accounting for financial instruments, consistent with the long-term objective of IASB of full fair value accounting for all financial assets and liabilities.

While Basel II, which will come into effect at end-2006, was only meant to be a best practice guideline, it has however quickly become the *de facto* global standard. The standing of IAS, on the other hand, has been given a huge boost by the decision of the European Union (EU) that all companies listed on a regulated market should be required to prepare consolidated financial statements in accordance with IAS for all accounting periods beginning on or after 1 January 2005. The EU's move has drawn the attention of other regions, which will most likely follow in its footsteps. Indeed, it is not surprising that the growth in the number of listed companies from the emerging markets that are complying with IAS requirements is on an upward trajectory. The IASB and the US Financial Accounting Standards Board (FASB), meanwhile, are committed to the convergence of US and international accounting standards.

It is clear that financial institutions, especially banks, will be impacted by both Basel II and IAS 39 in one way or another. The question now is how they are going to prepare themselves for both IAS 39 and Basel II which will be in force soon. Are there cost synergies that can be achieved from these two sets of rules?

By and large, banks can minimise the cost of complying with both Basel II and IAS 39 by exploiting the links between the two sets of rules. This is because the three-pillar structure of capital charges, supervisory review and greater disclosure in Basel II is compatible with IAS 39, which is based on fair-value concepts aimed at making the accounts of banks much clearer to investors, trading entities and regulators.

First and foremost, Basel II and IAS 39

affect much of the same data. There are a number of areas where data required by one regulation either directly relates to data required by the other. For example, Basel II introduces greater risk sensitivity in capital allocation, which requires collection and analysis of internal credit loss experience in order to ensure a consistent credit risk practice across all lines of business. In a way, Basel II can be said to be a two-edged sword as far as risk sensitivity is concerned as it requires higher (than current) capital charges for riskier assets and lower capital charges for lower risk assets. Moving in tandem is IAS 39 which requires the valuation of financial assets based on their fair values. In this regard, the new requirements on impairment loss provisioning of IAS 39 and the risk sensitivity capital allocation of Basel II seem to rely pretty much on the same set of data.

Secondly, both sets of rules warrant the need for adequate internal control to ensure the integrity and accuracy of data. Both regimes are aimed at eliciting a true and fair view of the state of affairs of the banks. Basel II places its focus on risk adjusted capital allocation while IAS 39 places its attention on valuation of financial assets based on their marked-to-market value (i.e. fair value). The requirement for adequate internal control comes under supervisory review (i.e. Pillar II) of Basel II while it is mandatory under IAS to have a sound internal control. In addition, banks are subject to external audit by independent external auditors. Thus, compliance to both regimes would require detailed audit trails. With these requirements, there will be significantly more data required to support the reported figures. Both of the regimes seem to place greater focus on risk management with their source data originating from daily transactions which need to be captured, managed, stored and analysed in a detailed and meticulous manner. Separate manual adjustment of statutory accounts to cater for regulatory reports and for internal management information (what banks have been traditionally doing) may be some sort of an opaque reflection of the past.

Thirdly, external reporting is required under both sets of rules. IAS 39 requires reporting and disclosure of information on financial instruments through the statutory accounts whereas Basel II requires the disclosure of capital and risk information under Pillar III. In this instance, development of a harmonised reporting framework between both regimes does not only sound sensible but also practical.

Bridging the gap between Basel II and IAS 39 is no doubt a difficult and intricate task. The challenge is made more complex by the disparate finance and risk management practices and systems in many banks. However, it's clear that developing an integrated approach to the two sets of requirements will help minimise any adverse impact while keeping costs down. AT

Saravanan Ramasamy is a regular contributor to the magazine. He can be contacted at saravn@tm.net.my

Medical Expenses and Directors of Controlled Companies

An Income Tax Perspective

By Nakha Ratnam Somasundaram

This article explores the grey area of tax deduction for medical expenses incurred by directors of family-owned companies in the context of the self-assessment system of taxation. It examines the income tax law and the rulings for this deduction and the consequences that may follow should the Inland Revenue Board's (IRB) perspective on the claim for deduction be not in congruence with that of the claimant.

Medical expenses are incurred by a company in paying for medical treatment of the company's staff and workers, including its directors. The Income Tax Act 1967 (as amended) (ITA) does not set any limits on the quantum of the expenditure incurred.

The deductibility of medical expenses in the case of controlled companies, incurred in respect of the director (not being a service director) however gives some cause for concern. There is no special directive or ruling from the Inland Revenue on this matter to assist the taxpayer or the tax practitioner in making a 'safe' claim. In the absence of such a ruling, this article examines the issue from the perspective of the taxpayer and that of the tax practitioner.

The Meaning of Medical Expenses

The ITA does not have a definition for "*medical expenses*". In the absence of a statutory definition, the ordinary meaning must be given to the said term[1].

For the layman, the term will comprise any expenditure incurred on or relating to medical treatment. The expenditure incurred may range from the cost of a visit to a general practitioner's clinic for common symptoms like a cold or flu (or such similar common ailment), to the cost of a visit to a medical specialist in a hospital or to a private medical centre for more serious dis-

1 Lord Justice Donovan in *Rennel vs. IRC* [(1961) 3 All ER 1028]

eases like cancer. Furthermore, medical costs may include long term medication and drug therapy for ailments like hypertension and diabetes. Other expenditure may include various medical tests, surgical procedures, postoperative care, and follow-ups. It is common knowledge that in today's fast paced life, psychiatric ailments are on the increase, and it is the writer's opinion that this too should properly be included in the '*Serious Disease*' list[2].

Deductibility of Medical Expenses: General

Medical expenses incurred by a company for its staff are allowable under Section 33 of the ITA as "*outgoings and expenses wholly and exclusively incurred during that period by that person in the production of gross income from that source …*". Towards this end, the company must document, keep, and maintain the relevant books for the medical expenses incurred. This is to ensure compliance with the Inland Revenue Board Public Ruling on record keeping[3].

To date the IRB has not issued any Public Ruling on claims for medical expenses. However, a 'guideline' issued on 4th March 1997 merely explains the meaning of '*Serious Disease*' for purposes of a claim for personal relief under Sec. 46(1)(g) of the ITA[4]. It does not indicate what constitutes a medical expense.

Exemption of Medical Benefit To Employees

The recipient of the medical benefit (including dental benefit) is not taxable on the value of the benefit. This is provided for under Sec. 13(1)(b)(i) of the ITA. The value of the benefit should therefore be excluded from the income of the employee, including the directors, when determining his or her income from employment.

Definition of Director

There are two types of directors for income tax purposes — a director and a service director. In dealing with these two definitions, the concept of the term 'associate' must also be understood.

Director

Under Section 2 of the Income Tax Act 1967 (as amended), in relation to a company, the term '*director*' includes any person occupying the position of director (by whatever name called), and any person who:

a) Is the manager of the company or otherwise concerned in the management of the company
b) Is remunerated out of the funds of the company
c) Is either on his own or with one or more associates (see definition below), the beneficial owner of twenty per cent or more of the ordinary share capital of the company

The definition of '*director*' above is quite similar to the definition found in Section 4 of the Companies Act 1965 [Act 125] (Companies Act).

Associate

This term is specifically defined in the ITA[5]. An 'associate' means:

a) In relation to the director, a person in any of the following relationships to that person, that is to say, husband, wife, parent, remote forebear, child or remote issue, brother, sister and partner.
b) The trustee or trustees of a settlement in relation to which that person is, or any such relative (as indicated above) is or was a settler.
c) Where a person is interested in any shares or obligation of the company, which are subject to any trust or are part of an estate of a deceased person, any other person interested therein.

Service Director

A service director, in relation to a company, means a director who is employed in the service of the company in a managerial or technical capacity, and is not, either on his own or with associate or associates (associate having the same meaning as in the above paragraph) the beneficial owner of more than five per cent of the ordinary share capital of the company.

The ITA is however silent in the case of directors of a controlled company who hold more than five per cent but less than 20 per cent of the ordinary shares of the company. In such situations, tax practitioners may want to look at the overall shareholdings pattern and the relationship of the shareholders to each other. The concept of '*associate*' could then be applied to see whether the director is a service director or not.

In most of the cases that the tax practitioners are likely to come across, the definition that will frequently apply is the one that appears in the first paragraph above being the definition of "Director". It is quite typical of the usual family owned companies where the shareholders are made up of the parents, children, uncles, brothers, and other close relatives.

Deductibility of Medical Expenses: Directors of Controlled Company

In the context of the Self-Assessment System, the IRB will normally examine and scrutinise an expenditure claimed, either during a desk audit or during a field audit. Such expenditure may be disallowed on the following grounds:

a) Not wholly and exclusively incurred in the production of gross income.
b) Dual purpose.
c) Domestic and private.

In the case of a claim for medical expenditure, particularly in the case of a controlled company, the dilemma faced by a tax practitioner is that it is a grey area — it is not wrong to make the claim; at the same time, it is not a clear cut arms length transaction that lends itself to plain deductibility either. Add to this the fact that the IRB is also silent on this issue.

The grounds for a deduction could, however, be made stronger if the following actions are taken by the company:

a) It should be established that the director has rendered services or alternatively, made contributions towards the production of gross income of the company's business. This means he or she should be actively involved in the operations of the company's business; not a passive director who is merely sitting on the Board and drawing a director's fee. This is an important factor.

---

2 The views expressed are those of the author's.

3 Public Ruling No. 4 of 2000 — *Keeping of Sufficient Records (Companies and Co-operatives)*; Public Ruling No. 5 of 2000 — *Keeping of Sufficient Records (Individuals and Partnership)*; Public Ruling No. 6 of 2000 — *Keeping of Sufficient Records (Persons other than Companies or Individuals)*.

4 See Section 46(2) of the Income Tax Act 1967 (as amended).

Also see "Guidelines on types of serious diseases under Section 46(g), Income Tax Act 1967" issued on 4 March 1997 by the Inland Revenue Board

5 See Sec. 139(7) of the Income Tax Act 1967 (as amended) for the detailed provision

b) A written agreement between the director and the company specifying the nature of the duties to be performed and the rewards for such performance would be useful — in other words, a properly executed service agreement[6].

c) The company should have a resolution prepared and passed to indicate the position of the directors and the benefits entitlement, including medical benefits.

The resolution will give the medical expenditure a semblance of arms length transaction characteristics. The reward could include, among other things, the provision of medical benefits. It is pertinent to ensure that the quantum of rewards and or benefits be commensurate with the contribution. This is a very difficult area. However, the '*just and reasonable*' test could be used[7]. This test involves a qualitative judgmental approach.

Disclosure in the Tax Return

In instances where a claim is made by the tax practitioner for or on behalf of the client, like the medical fees for directors of a controlled company, which may be disallowed or challenged by the Inland Revenue Board it is most appropriate for the tax practitioner to make a written disclosure to the Inland Revenue Board[8].

The Inland Revenue Board requires that where a person making a return or the person giving assistance or advice in the preparation of a return adopts a position or takes a stand in respect of any provision of the ITA:

- That is not in accordance with any requirement, direction, determination or decision in any guidelines, ruling or other published statements or any statutory or prescribed form issued or furnished by the Inland Revenue Board, he can show that there are sufficient and reasonable grounds for him to justify the position taken; and/or
- That constitutes a departure from his normal practice or treatment; and he can show that there are sufficient and reasonable grounds for him to justify that position or stand, he should make a written disclosure of the position or stand and the grounds for it, as well as how it affects the person's tax liability.

Anything done should be done with the client's written consent. It will be prudent on the part of the tax practitioner to keep clients informed of the risk inherent in such claims and the possibility of a penalty being imposed should the expenditure be disallowed by the Inland Revenue Board consequent upon an audit exercise. This should be done with a view to indemnify the practice against any financial risk, claims for damages or loss.

Alternative Claims

Personal claims

The claim of medical expenditure as an expense charged in the profit and loss account of the company under Section 33 is only one alternative.

In instances where the deductibility of the medical expenses incurred under Section 33 is rather doubtful, clients could be advised to claim them under Section 46(1)(g). Under this section, an individual is entitled to claim a personal deduction of an amount limited to a maximum of RM5,000 in respect of medical expenses expended or deemed to have been expended by that individual on himself or his wife or child who is suffering from a *serious disease*. The director could probably be advised to make a claim accordingly.

In the case of the wife, expenditure incurred on herself if she is suffering from a serious disease or on her husband or child who is suffering from a serious disease will qualify for a personal deduction, also under Sec. 46(1)(g). She could be advised to make a claim if she is opting for a separate assessment.

In such instances, the claim should be evidenced by a receipt and a certification issued by a medical practitioner that treatment was indeed provided to the individual, spouse, or child who is suffering from a *serious disease*.

Claim of Medical Expenditure For Parents

The medical expenditure can be incurred and paid for by the children of the taxpayer (or director). In such cases, a claim for personal deduction can be made by the children in their personal return under Sec. 46(1)(c). For claims under this particular section, the medical expenses are not restricted to serious diseases. The maximum that can be claimed by each child is RM5,000 for the relevant year of assessment.

In most instances, arrangements can be made with the medical practitioner for the issue of a certification and the appropriate receipt for tax claims purposes. However, care should be taken to ensure that the child claiming the payment has reasonable financial means for making such payments.

Meaning of Serious Disease

The term 'serious disease' is defined in the Income Tax Act 1967 (as amended) to include AIDS, Parkinson's Disease, cancer, renal failure, leukaemia and other similar diseases.

6 *KHK Advertising Sdn. Bhd v Ketua Pengarah Hasil Dalam Negeri* [(2001) MSTC 3,845]

7 For example, the assessable benefit of an accommodation provided by a company for a non-service director of a controlled company is the full defined value. However, under Sec. 32(3)(a) where the said accommodation is wholly or partly shared with other employees, the defined value can be reduced by a proportion, which is '*just and reasonable*'

8 See Public Ruling No. 8 of 2000 — Wilful Evasion of Tax and Related Offences, Para. 3.5

Meaning of Child

Child is also defined in the ITA to include, in relation to an individual or his wife, a legitimate child, stepchild of the taxpayer or his wife, or a child proved to the satisfaction of the Director-General to have been adopted by the individual or his wife in accordance with any law.

Medical Insurance

If the company pays a premium for a medical policy of the director, and the director is the beneficiary, then such premium paid will be treated as a benefit-in-kind of the director. However, if the company is the beneficiary, then the premium will not be treated as benefits-in-kind of the director.

Similarly, premiums paid by the employer for Aviation Travel Insurance for employees will not be assessed on the employee as benefits-in-kind. And so is contribution by the employer to the Healthcare Management Organisation (HMO) — it will not be treated as a benefits-in-kind on the employees[9].

Keyman Policy

Some insurance companies offer this policy founded on skills, professional knowledge, and the high competence of a particular staff in the employ of the company[10]. If the company purchases a keyman policy and the firm or company is the beneficiary of the policy, then the entire premium paid for the loss of the profits will be an allowable deduction.

The company will have to show that it has an insurable interest in the employee or director, and that the expenses are incurred in the production of gross income, thus satisfying Section 33.

Any insurance recovery received upon death of the employee or director, or alternatively on maturity of the policy will be taxable on the company under Section 22(2) of the ITA[11]. It should also be noted that any payment by the company to the deceased's dependants from the insurance recovery would not be tax deductible[12].

Again, in the case of a family controlled company, the measure adopted by the Inland Revenue Board will be more stringent. It is up to the company to establish that the policies are necessary, that the premiums paid are fair and reasonable, and the considerations are purely commercial. How far this will succeed in a claim with the Inland Revenue Board is yet to be seen[13].

Reasonable Care and the Tax Professional

The tax accountants and tax practitioners have a significant role to play in assisting the taxpayer[14]. However assisting the taxpayer is no more a simple act because it comes with a huge price tag for the tax practitioner. Under Section 114(1A) of the ITA *"any person who assists in, or advises with respect to, the preparation of any return which results in an understatement of the liability for tax of another person shall unless he satisfies the court that the assistance or advice was given with reasonable care, be guilty of an offence…"*

'*Reasonable care*' is defined to mean *"the degree of care or conscientiousness in paying proper attention to a task that is expected, in similar situation, of an ordinary person who, considering the circumstances and the foreseeable consequences, acts with reason, sound judgement, and responsibility"*[15].

Section 114(1A) of the ITA has caused much concern among Malaysian tax practitioners, who may act in very good faith but fall short of reasonable care. In practical terms, it places the tax practitioner in a very difficult position if they make a 'mistake' in law because even if a disclosure is made, the '*sufficient and reasonable grounds*' for the tax practitioner may not be so sufficient or so reasonable for the Inland Revenue Board. The tax practitioner's position thus becomes very onerous. Tax practitioners may even have to seek legal opinion before giving professional advice thereby increasing the compliance cost of the taxpayer[16].

Conclusion

While the financial and economic contributions of the small and medium companies to the economy, particularly family owned enterprises, are generally acknowledged[17] the Inland Revenue Board has always been very cautious about allowing deduction that borders on the 'personal', like medical expenses, travelling expenses, and motor vehicle expenses of private cars used in the business.

In the self-assessment environment where almost all the balls are in the taxpayer's court, there is now a need for taxpayers and directors of controlled companies in particular, to be more careful.

Steps should be taken by directors of controlled companies to ensure that the law, rules and regulations are fully complied with when preparing the company's tax computation.

Under Section 114(1A) of the ITA this responsibility to be more careful is also passed over to the tax accountants and tax practitioners, with grave consequences[18]. For some, it may be time to look for alternative careers or business options! AT

References

CCH Editors. 2003 Malaysia and Singapore Tax Cases, CCH Asia Pte. Ltd., Singapore.

Companies Act 1965 (as amended)

Dr. Arjunan Subramaniam, *Malaysian Taxation System 2003 Self Assessment*, Thompson, Sweet and Maxwell Asia, 2003

For more information on references please contact the author at email: nakharatnam@yahoo.com

Nakha Ratnam Somasundaram holds a Masters in Business Administration from the Universiti Utara Malaysia. He is an Associate Member of the Malaysian Institute of Taxation. Mr Nakha served in the Inland Revenue Board for 30 years and retired in 2001 as State Director of the Inland Revenue Board, Kelantan. Currently he is the Tax Consultant with the firm of Chua & Chu of Kota Bharu, and a Tax Advisor to Shamsir Jasani Grant Thornton of Kuala Lumpur. In his spare time, he is actively engaged in community service, focussing on education for under privileged children.

9 Dr. Arjunan Subramaniam, *Malaysian Tax Reporter,* Vol. 1 Para. 2-335, Page 3,693. Singapore: CCH Asia Ltd.

10 For a detailed discussion of Life Insurance Coverage for Keymen, see Yong Poh Chye, *'Life Insurance and Malaysian Tax Implications',* Petaling Jaya: Longmans Malaysia

11 *Keir & Cawder Ltd. v CIR* CS 1958, (38 TC 23).

12 *Gray & Co Ltd. v Murphy KB* 1940, (23 TC 225)

13 For the Inland Revenue Board's view on the deductibility of premiums paid on 'Key-man Insurance' policies, see Public Ruling No: 2/2003 issued on 30 December 2003.

14 For an in-depth discussion of the role of the tax practitioner or tax professional, and the role of the taxpayer under the self-assessment system, in the context of Section 114(1A) of the Income Tax Act 1967 (as amended), see Dr. Veerinderjeet Singh and Renuka Bhupalan, "The Malaysian Self-Assessment System of Taxation: Issues and Challenges" *Akauntan Nasional*, January/February 2002 pp. 10-15.

15 See Public Ruling No. 8 of 2000 — Wilful Evasion of Tax and Related Offences, Para. 4.3

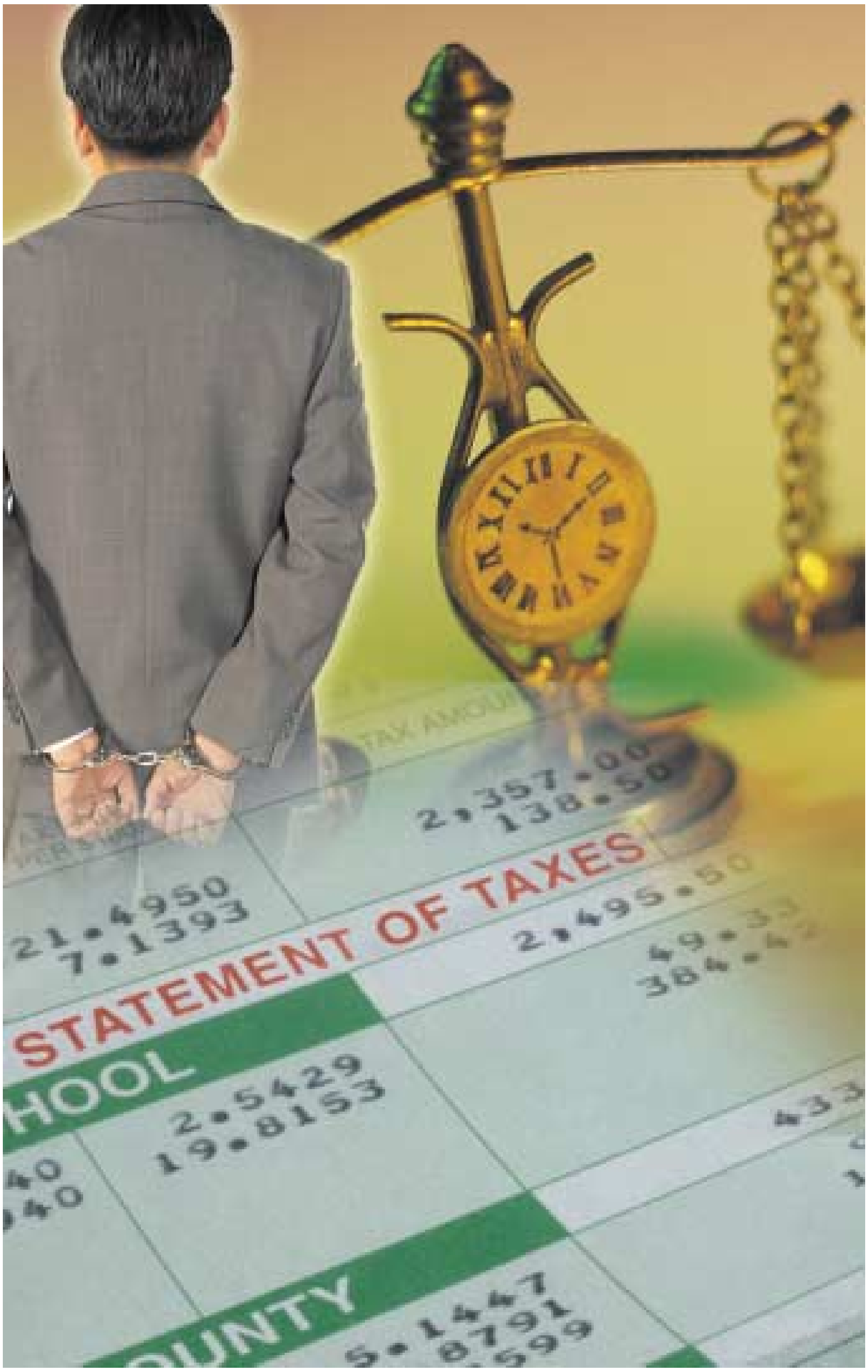
16 Dr. Jeyapalan Kasipillai, *"Tax Advisors' Concern over Section 114(1A) of the Income Tax Act 1967 (as amended)",* article published in the *STAR (Tax Matters)*, 6 March 2000

17 A Survey in Malaysia by the Accounting Firm of Shamsir Jasani Grant Thornton (SJGT) and the Malaysian Institute of Management (MIM) found that 59% of the businesses polled in their survey are run by the founders while 30% are run by the second generation, the majority of whom are children of the founders. (Maryann Tan, *All in the Family (*From *The Edge, 2 February 2002) — Family Business Update*, March 2002.

18 See Nakha Ratnam Somasundaram, *"Reasonable Care Under Self-Assessment".* Tax Nasional, 4th Quarter/2002.

Fraud, Wilful Default and Negligence

By Dr. Choong Kwai Fatt



Section 91(1) of the Income Tax Act 1967 permits the tax authorities to raise assessment or additional assessments within six years after the end of a year of assessment if it appears to the Director-General that no or insufficient assessment has been made on the taxpayer. The tax authorities however, are empowered to re-open any assessment beyond the statutory limit of six years if the tax authorities can establish:

1. fraud;
2. wilful default; or
3. if negligence has been committed by the taxpayer in making his income tax returns.

The three terms of fraud, wilful default, and negligence are, however, not defined in the Act. This article aims to lay down the scope of these terms by analysing the leading case precedents. It is hoped that taxpayers who are now placed in the new self-assessment regime with effect from year of assessment 2004 are able to familiarise themselves with the boundaries thus being able to minimise the risk of being prosecuted and/having to pay penalties.

Rules of Penal Provisions

The High Court in the case of *Government of Malaysia vs. Chong Woo Yit*[1] held that negligence and fraud are two separate and distinct terms. Fraud may contain some elements of negligence but negligence does not arise from fraud. Fraud or wilful default is a serious offence and it carries a maximum penalty of 300 per cent of the tax due and possible imprisonment of up to three years. As such, it is important to understand the general rule on the interpretation of penal provisions as found in Part VIII of the Act (Offences and Penalties).

The following are some pertinent principles of tax in relation to the imposition of tax penalty:

1. Penal provisions are to be strictly construed and should not be given a wider interpretation than the provision clearly provides.
2. Penalties are not enforceable unless they are expressed in clear terms.
3. Where there are various possible interpretations of a section, it is always against adopting a particular interpretation if it shall appear that the result is unreasonable or oppressive.[2]
4. If the legislature had intended that there should be more than one penalty, that intention must be expressed in clear and unequivocal terms.[3]

Fraud

The meaning of fraud is not defined in the Act. In *PJTV Denson (M) Sdn Bhd & Ors vs. Roxy (Malaysia) Sdn Bhd*,[4] Chief Justice Raja Azlan Shah said:[5] *"Whether fraud exists is a question of fact, to be decided upon the circumstances of each particular case. Decided cases are only illustrative of fraud."*

In the leading fraud case of *Derry vs. Peek*,[6] Lord Herschell laid down the principle that fraud is proven when it is shown that a false representation has been made:
(a) knowingly, or
(b) without belief in its truth, or
(c) recklessly, careless, be it true or false.

The above principle is accepted in *Magnum Finance Berhad vs. Tan Ah Poi & Anor*[7] where Justice Mohd Ghazali bin Mohd Yusoff held:[8] *"Fraud is obtaining of a material advantage by unfair or wrongful means, it involves moral obliquity. It must be proved to sustain the common law action of deceit. Fraud is proved when it is shown that a false representation has been made:*
(a) knowingly, or
(b) without belief in its truth, or
(c) recklessly, careless whether it be true or false."

In the event the tax authorities suspect fraud, an explanation from the taxpayer is called for. Where there is reasonable doubt on the intention of the taxpayer to evade tax by fraud, the taxpayer should be given the benefit of the doubt. The tax authorities bear the burden of proof to establish fraud. The law is such that who alleges fraud must clearly and distinctively prove it. The prosecution must satisfy the court on the guilt of a taxpayer. In *Kee Kim Chooi & Ors vs. Public Prosecutor*,[9] Justice Thomson opined:[10] *"… the prosecution must prove its case to the satisfaction of the court and the court must not convict an accused person unless it is satisfied he is guilty."*

The standard of proof in fraud is "beyond reasonable doubt". In this regard, Supreme Court Judge Syed Agil Barakbah held in *Chu Choon Moi vs. Ngan Sew Tin*:[11] *"We agree that fraud whether made in civil or criminal proceedings must be proved beyond reasonable doubt and cannot be based on suspicion and conjecture."*

His Lordship then sets out the weight of "beyond reasonable doubt". He opined: *"Proof beyond reasonable doubt does not mean proof beyond the shadow of doubt. The degree of proof need not reach certainty but it must carry a high degree of probability. What it means is that the evidence adduced is such that the Court believes its existence or a prudent man considers its existence probable in the circumstances of the particular case. If such proof extends only to a possibility but not in the least a probability, then it falls short of proving beyond reasonable doubt."*

In *Mohamed Taiyob vs. Public Prosecutor*,[12] the prosecutor's contention that the individual's conduct and remarks when he was being questioned were evidence of a guilty mind was rejected by the court which held that it fell short of the weight of beyond reasonable doubt. The court found the accused was just being confused.

In the author's opinion, fraud requires an active role of a taxpayer in committing a transaction. A mere omission of an act does not tantamount to fraud. A taxpayer is presumed innocent until fraud is proven. Certainly, the behaviour in answering the prosecution question during cross examination can never be conclusive to indicate fraud as one may be too nervous during a trial query.

The tax authorities must establish their case and the taxpayer's duty is to weaken the case. The duty of providing an explanation is cast upon the taxpayer, and when an explanation given is consistent with his innocence, the tax authorities must accept it at face value. This also applies to the courts. In *Loh Chan Wan vs. Public Prosecutor*,[13] a case concerning customs duty, the accused charged with evading customs duty argued that he innocently believed that it was undutiable as he was illiterate. Chief Justice Thomas held:[14] *"Now, where the duty of giving an explanation is cast upon a defendant, and an explanation is given, which is consistent with innocence, the court must consider whether it might reasonably be true although not convinced of its truth. The learned Magistrate does not appear to have given his attention to this matter.*

In view of the evidence of the translator, the explanation that the accused was not aware of the contents of the goods in question, and considered them undutiable (an explanation which was consistent with innocence) might reasonably be true although the Court might not be convinced of its truth.

Therefore the accused should have been acquitted. The appeal is accordingly allowed, and the conviction and sentence are quashed; any fine paid to be refunded to the appellant. Duty will, of course, have to be paid."

Fraud is a serious offence. A taxpayer will be liable to a penalty of three times of the tax due and possible imprisonment of up to three years. If the taxpayer's explanation is consistent with his innocence, he should not be liable to the penalty nor imprisonment but only be accountable for the tax undercharged, relying on the dictum of Chief Justice Thomas in the above case.

In case of fraud or wilful default, the onus lies on the prosecution to satisfy the court as to the guilt of an accused taxpayer. The prosecution must prove its case to the satisfaction of the court to the extent of beyond reasonable doubt. The court shall only convict the taxpayer after having fully considered the evidence and explanations given. If in any event an explanation offered is one which leaves the court in doubt as to the guilt, the taxpayer must not be convicted.

1 [1988] 2 MLJ 534.
2 See *AG vs. Till* 5 TC 440 at 452.
3 See *Garrett vs. Messenger* (1866-7) 2 Common Pleas cases 583.
4 [1980] 2 MLJ 136.
5 Ibid at pp. 138.
6 14 AC 337.
7 [1997] 3 AMR 2265.
8 Ibid at pp. 2280.
9 [1952] 18 MLJ 180.
10 Ibid at pp. 180.
11 [1986] 1 MLJ 34 at 38.
12 [1947] 13 MLJ 101.
13 [1939] MLJ Rep 68.
14 Ibid at pp. 69.

Wilful default

Taxpayers have a legal and moral duty to submit their tax returns and be responsible for income tax payable. Thus, a taxpayer who knows and understands his duty and responsibility and yet does not fulfil his obligation is said to have committed "wilful default."

Lord Justice Bowen held in *Re Young & Harston's Contract*:[15] *"The term 'wilful default' is not a term of art … Default is a purely relative term, just like negligence. It means … not doing what is reasonable under the circumstances — not doing something which you ought to do, having regard to the relations which you occupy towards the other persons interested in the transaction. The other word which is sought to define is 'wilful' … it generally, as used in courts of law, implies nothing blameable, but merely that the person of whose action or default the expression is used, is a free agent, and that what has been done arises from the spontaneous action of his will. It amounts to nothing more than this, that he knows what he is doing, and intends to do what* he *is doing, and is a free agent."*

Once the tax authorities establish a *prima facie* case that a taxpayer has committed wilful default, the taxpayer will bear the onus to weaken the tax authorities' contention by adducing significant documentary evidence and offer consistent explanation to the Special Commissioners or the court, failing which, an adverse inference can be drawn on the taxpayer as the taxpayer is the material witness who is aware of the full facts of the case. In this regard, Justice Pennycuick in *Hudson vs. Humbles*[16] summarises the position of the law as follows:[17] *"The taxpayer knows the full facts, and the Revenue does not. In the nature of things, it must often be the case that, even if the Revenue can show a prima facie case that receipts have not been satisfactorily accounted for, it has no material upon which to set up a prima facie case for bringing the receipts in question under one or other source of income. On the other hand, it is always open to the taxpayer to challenge the assessment, not only on the ground that there has been no wilful default, but also on the ground that the receipts did not represent income from the particular source selected by the Revenue."*

Negligence

Taxpayers owe a duty of care to the government when submitting their tax returns. They must exercise reasonable care when providing information on their tax affairs for the ascertainment of income tax payable. In *Blyth vs. Birmingham Waterworks Co*,[18] Justice Alderson held:[19] *"Negligence is the omission to do something which a reasonable man, guided upon those considerations which ordinarily regulate the conduct of human affairs, would do, or doing something which a prudent and reasonable man would not do."*

Whether a taxpayer is negligent when submitting his tax return is a matter of facts judging by the "reasonable man standard". Justice McNair lucidly propounded the principle of negligence in *Bolam vs. Friern Hospital Committee*.[20] His Lordship held:[21] *"I must explain what in law we mean by 'negligence'. In the ordinary case which does not involve any special skill, negligence in law means this: Some failure to do some act which a reasonable man in the circumstances would do, or doing some act which a reasonable man in the circumstances would not do; and if that failure or doing of that act results in injury, then there is a cause of action. How do you test whether this act or failure is negligent? In an ordinary case it is generally said, that you judge that by the action of the man in the street. He is the ordinary man. In one case it has been said that you judge it by the conduct of the man on the top of a Clapham omnibus. He is the ordinary man. But where you get a situation which involves the use of some special skill or competence, then the test whether there has been negligence or not is not the test of the man on the top of a Clapham omnibus, because he has not got this special skill. The test is the standard of the ordinary skilled man exercising and professing to have that special skill. A man need not possess the highest expert skill at the risk of being found negligent. It is well-established law that it is sufficient if he exercises the ordinary skill of an ordinary competent man exercising that particular art."*

Conclusion

The allegation of fraud or wilful default requires the tax authorities to prove its case beyond reasonable doubt, as it is a serious offence which, if proven, allows the tax authorities to raise assessments in excess of six years notwithstanding the records may no longer be available. It is therefore important to know the scope, definition and nature of fraud and wilful default. AT

The writer is a Tax Consultant and an Associate Professor, Faculty of Business and Accountancy, University Malaya. He can be contacted at e-mail: kwaifatt @yahoo.com. See website www.kwaifatt.com for Malaysian taxation updates.

15 [1885] 31 Ch D 168 at 174.
16 42 TC 380.
17 Ibid at p 387.
18 [1856] 11 Exch 781.
19 Ibid at pp. 784.
20 [1975] 2 All ER 118.
21 Ibid at pp. 121.

HP Compaq Tablet PC TC 1100

Hewlett-Packard Sales (Malaysia) Sdn Bhd has introduced its new architecturally redesigned HP Compaq Tablet PC TC1100 – a versatile, full-function, mobile PC with increased power and performance that incorporates the low voltage Intel Pentium® M processor and wireless capabilities supporting the Centrino brand. This processor offers higher performance with lower power consumption, giving users an industry-leading battery life of up to four hours.

Offering secure wireless connections to the most current standards, the Tablet PC TC1100 incorporates an integrated wireless centrino technology with the choice of 802.11b or 802.11a/b/g wireless LAN solutions and built-in Bluetooth™ making it easier than ever to get wirelessly connected when travelling.

The Tablet PC functions both as a tablet and a highly portable notebook PC. When used as a tablet, the device captures digital ink as it flows from an electronic pen onto the PC's screen. When typing is preferred, users can simply attach a lightweight, removable keyboard — which is shipped standard with the offering.

When combined with its innovative docking solution, a full-size keyboard and a monitor, the new HP Compaq Tablet PC transforms into a functional desktop PC. The flexible docking solution also lets users place the Tablet PC in a more natural, comfortable position to write directly on the screen.

Because the Tablet PC's innovative design provides greater flexibility, users can efficiently accomplish common business tasks such as taking handwritten notes in a meeting for later reference or conversion to text, annotating documents or presentations using digital ink, reading electronic magazines or books, or even discreetly sending handwritten messages during meetings.

Measuring merely 2cm thin and weighing slightly over 1.4kg, the HP Compaq Tablet PC TC1100 delivers performance and features typically found in a functional Windows® XP Professional ultra-portable notebook. The Tablet PC also includes: 10.4-inch TFT display featuring a wide viewing angle, hardened cover glass and NVIDIA GeForce4 Go 420 high-resolution graphics; fast infrared, built-in Bluetooth and 802.11b wireless LAN capabilities; up to 60-gigabyte SMART 5,400 r.p.m. hard drive; integrated secure digital slot and USB 2.0 connectivity.

Additionally, the HP Compaq Tablet PC incorporates user-friendly features such as fully programmable launch buttons and a one-touch jog dial to launch preset programs and navigate and scroll through applications. The Q menu allows for quick access to common functions, such as display brightness, internal wireless control and video-to-projector controls.

The HP Compaq Tablet PC is priced at RM8,388 (actual prices may vary) for the Centrino-based model. More information about the HP Compaq Tablet PC TC1100 is available at www.hp.com/go/tabletpc.

HP iPAQ h4150 and h4350

HPSM has also introduced the HP iPAQ Pocket PC h4150, the thinnest and lightest Pocket PC in the market to include integrated wireless LAN network access (802.11b) and Bluetooth wireless technology, and the HP iPAQ Pocket PC h4350, which includes an integrated backlit keyboard in addition to integrated wireless capabilities.

Slim and easy to carry, both models allow users to stay connected while at work, at home or on the go. The integrated wireless LAN network enables high-speed wireless access to the Internet, e-mail, corporate data, and solutions such as voice over IP (VoIP). Integrated Bluetooth wireless technology allows users to connect to Bluetooth enabled notebook PCs, printers and accessories, as well as access to remote data when combined with a Bluetooth enabled phone.

With a broad choice of integrated wireless capabilities, the HP iPAQ Pocket PC h4150 and h4350 enable wireless personal area and local area connectivity.

At the office, at home or in the growing number of public wireless LAN (WLAN) hotspots, such as coffee shops, hotels and airports, wireless connectivity allows access to important information quickly and conveniently. Personal networks can also be created using peer-to-peer communication with another WLAN-enabled device for collaboration and information sharing.

Customers can also take advantage of the integrated Bluetooth capability to synchronise and share data through their own personal area networks, access the Internet, send e-mail and exchange business cards or other documents without cables. Bluetooth wireless technology also allows users to wirelessly print e-mail attachments, documents or photos conveniently from the Pocket PC to a Bluetooth enabled HP printer.

Both the h4150 and h4350 include enhanced security protection, reassuring customers that the critical content stored on the devices and the wireless connections made with the devices are secure. Virtual private network (VPN) software and wired equivalent privacy (WEP) provide enhanced security for wireless connections when accessing information remotely via WWAN or WLAN, respectively.

Both Pocket PCs include common features that allow mobile professionals to do more with their HP iPAQ while on the road. The HP iPAQ h4350 also includes a new integrated backlit keyboard, making it faster and more convenient to send messages, enter notes or type e-mails. The keys have a standard QWERTY layout and illuminate.

PC h4150 PC h4350

An integrated secure digital input/output (SDIO) expansion slot offers users the ability to increase data storage, play more music and view more photos. By simply adding SDIO options like memory cards, wireless cards or even a digital camera such as the HP Photosmart Mobile Camera, users can extend the capability of the iPAQ to fit their needs.

The h4150 includes a 1000 mAh removable battery and offers an optional 1800 mAh battery; the h4350 includes a 1560 mAh removable battery and offers an optional 3600 mAh battery. With the internal backup battery, users can swap the main removable battery with the system power in standby mode.

The h4150 and h4350 both include a brilliant and vivid transflective display that works well in bright sunlight. The high-contrast ratio and rich colour saturation provide crisp and clear images and text. Both models come with 64 megabytes of RAM (56 MB of main memory) and the 400 MHz Intel® X-Scale PXA255 applications processor for accelerated multimedia.

Various applications exclusive to HP are included in the iPAQ h4150 and h4350, allowing users to get more from the devices.

With the wireless LAN power management feature, users can change the battery run time by adjusting the wireless LAN power-saving mode. The power-saving mode can be disabled for maximum wireless LAN throughput or enabled for maximum battery life. AT

To further expand the capabilities of the HP iPAQ Pocket PC, various solutions and tools are available at the HP iPAQ Pocket PC Solutions Catalogue website, www.hp.com/go/ipaqsolutions, and HP's matrix listing compatible third-party Bluetooth products, www.hp.com/products/wireless/wpan/btcompmatrix.

HP iPAQ Pocket PC Estimated Malaysian Street Price

- *Pocket PC h4150* RM1,688
- *Pocket PC h4350* RM1,888

More information about HP is available at www.hp.com.

HP Photosmart 945, 735 and 635

Also available from HPSM are three new digital cameras — the HP Photosmart 945, 735 and 635 with HP Instant Share technology — delivering a full portfolio of digital cameras for beginners and serious shutterbugs alike. Consumers now have the option to choose from ease-of-use and versatility with the HP Photosmart 635 digital camera to the manual controls and high-zoom power of the HP Photosmart 945 digital camera.

It marks yet another phase in a series of product rollouts that reaffirms HP's 'enjoy more' consumer strategy. HP had announced the launch of their consumer strategy to deliver simple and rewarding experiences in digital technology to consumers in Asia Pacific in September.

Leading the line-up is the HP Photosmart 945 digital camera, featuring a 5.3-megapixel total resolution and 56x total zoom (8x optical, 7x digital). The HP Photosmart 945 is HP's first digital camera to feature the HP Adaptive Lighting Technology, a breakthrough technology that enables digital cameras to produce photos that look more like what consumers see with their own eyes. It balances brightness relationships between bright and dark areas in a photo, preserving gentle contrasts while compressing harsh contrasts. The result is automatic contrast adjustment that lightens poorly illuminated objects and produces a true-to-life image that mirrors the natural beauty that the user intended to capture.

HP Photosmart 945

HP Photosmart 735

HP Photosmart 635

Additionally, the HP Photosmart 945 digital camera allows users to enjoy one-touch, fully-automatic technology with manual overrides, and on-camera help wizards to get sharp, crisp digital photos. Users can instantly preview photos anywhere with the electronic viewfinder, even outdoors in bright sunlight. The digital camera easily connects to the optional HP Photosmart 8881 camera dock, for a fast and convenient way to share and print photos.

HP's latest digital cameras provide great value and features for consumers who are looking to easily enter into the digital photography arena. The HP Photosmart 735 digital camera features a 3.2-megapixel resolution and up to 15x total zoom with great shot-to-shot performance.

The HP Photosmart 635 digital camera allows users to capture great photos with 12x total zoom (3x optical, 4x digital) and a 2.1-megapixel total resolution.

Similar to the HP Photosmart 945, the HP Photosmart 735 and 635 digital cameras also allow users to achieve the results they want by choosing automatic or manual controls to enhance photos and add special touches. The HP Photosmart 635 and 735 digital cameras are compatible with the optional HP Photosmart 8886 camera dock, providing effortless sharing of photos, recharging of batteries and viewing of slide shows on a TV with the wireless remote that ships with the camera dock.

Additionally, all of the new Photosmart cameras feature video mode with audio, enabling users to capture life's rich memories. Also included is the new and improved HP Photo and Imaging software, which includes a host of features for capturing, editing, printing and sharing digital images. The user interface is incredibly robust and is backward-compatible, automatically identifying previously installed HP products and updating the software.

With the HP Photosmart 945, 735 and 635 digital cameras, users can easily share their images with HP's Instant Share™ technology. Simply snap a photo and select on the camera the destinations for sending, including e-mail addresses or to HP Photo website (www.hpphoto.com) and printers. Select up to 34 destinations on any of the three digital cameras. The next time the HP Photosmart digital camera is connected to the optional camera dock or a computer, pictures are instantly sent to the selected destinations — a hassle-free way to e-mail and share digital images. AT

Product Estimated Malaysian Street Price

- *HP Photosmart 945 digital camera* RM1,999
- *HP Photosmart 735 digital camera* RM999
- *HP Photosmart 635 digital camera* RM799
- *Optional HP Photosmart 8881 Camera Dock* RM299
- *Optional HP Photosmart 8886 Camera Dock* RM299

(actual prices may vary)

Escape to Melaka

I fell in love with Melaka the very first time I set foot there in 1984. The idea of living so close to the sea and having a simple snail-paced life seemed like such a novelty, especially for a city-bred person. And with its proximity to Kuala Lumpur, it serves as a great spot for a quick getaway; an ideal place to just 'chill out'. But that's only part of its overall charm. Melaka also appeals to history aficionados and those wanting to expose their schooling children to the country's colourful past.

By Nina Pasricha

The Windmill is one of the most outstanding landmarks

Melaka's rich heritage and culture stems from the different occupants of the land from the days of the Sultanate. During that time, the Emperor of China sent an entourage with a Chinese princess bride, to establish ties with the Sultan. Descendants of the early settlers who intermarried with the locals thus formed the Baba Nyonya race with an interesting blend of two cultures.

The Portuguese then came followed by the Dutch and finally the British. To this day, the Portuguese people in Melaka have their own colony upholding their religion, language and ways for the last few centuries. The Portuguese settlement by the coast and around Portuguese Square comes alive every night with a flock of tourists who dine at the restaurants serving sumptuous seafood and wonderful Portuguese delicacies. Traditional Portuguese dance shows are also held here every weekend.

The Dutch left a legacy of buildings in their unique architecture and these are apparent mostly in Dutch Square off Jalan Laksamana. One outstanding landmark is the windmill. The cluster of red buildings there have been preserved as 'Old Melaka'. Previous Dutch homes and offices are now quaint little shops selling souvenirs. Here also stands Christ Church, built by the Portuguese and later taken over by the Dutch. Alongside, The Stadthuys is the oldest complete Dutch building in the area, and was constructed as a residence for the Governor. In the centre stands the Queen Victoria fountain, erected during the British occupation in honour of her Diamond Jubilee.

Though it is named Dutch Square, each building and monument symbolises the rule of a different sovereign from a different era. To add a local touch to Dutch Square, a mangosteen shaped food stall selling delicious *cendol* stands by the riverfront. It is not uncommon to see drivers stopped at the curb enjoying the delightful dessert in the comfort of their cars. It's like a modern day drive-in, with a local twist.

One of the most peaceful and revered sites in Melaka are the ruins of St Paul's Church on St Paul's Hill. The church was built and named 'Our Lady of the Hill' by a Portuguese Captain, Duarte Coelho. This was where the body of the Portuguese Catholic missionary, St Francis Xavier was temporarily enshrined. It was later removed and sent to Goa, India to his final resting-place. After the Dutch gained control over the territory, this area became a Dutch graveyard.

From the top of St Paul's Hill, the remains of the famous fortress *A Famosa* can be seen. Further up is Warrior's Field where the country's first Prime Minister, Tunku Abdul Rahman Putra Al Haj declared Malaysia's independence.

One of the most captivating sights in Melaka is the Portuguese ship, 'Flor De La Mar' which has been restored and stands proud across the Maritime Museum. Across the street from where it has been anchored, it looks like a picture from the fairy-tale adventures of Captain Hook. The 'Flor De La Mar' was laden with Malaccan treasures and was headed for Portugal when it sank off the coast. Its sheer size and beauty is bewitching and it stands proud as a symbol of Melaka's significant heritage.

Further down the Melaka River are modern ferries that shuttle to the Indonesian island of Dumai. Though more often used to repatriate Indonesians to their homeland, it is also an interesting way to visit the island. The fare costs below RM200 and the journey takes approximately two hours. Don't forget to bring along your international passport if you plan to make the trip.

Not too far off is the famed Melaka Parade; the town's first upbeat shopping mall. It is spread out and serves as a perfect escape from the heat of the sun. Offering great shopping and fast food amidst cool air-conditioning, it is little wonder that the place is so busy, especially during weekends.

One of the most vivid impressions of Melaka is the sharp contrast between old and new. A few strategic turns and one is transported from a historic realm to a yuppie heaven, both of which are equally appealing. Together, they are in fact, a crucial part of the overall charisma of Melaka.

On the other side of town is Klebang Beach, a local favourite for evening strolls. The beach overlooks the Straits of Melaka and is a picturesque site especially when the sun begins to set. By late evening, it comes alive with couples and families unwinding and taking their children to the children's play area. The chuckles of toddlers trotting about can be heard all around, while older children are more often seen searching for interesting sea shells or other unique treasures along the beach.

The crescent shaped shore at Klebang Beach gives a complete view of the other side of Melaka where several high-rise sea-facing hotels and resorts stand. There are also several food stalls at Klebang Beach selling local delicacies and the famous *ikan bakar*, *satay* and *roti canai*. Another 'must have' there is the *roti john*; stuffed with a sardine omelette and tomato ketchup. Towards the evening, small lorries bring in seasonal fruits and set up their stalls around the beach. Durians are available most of the time and this lures in both local residents and visitors alike.

Another beach much less visited but just as delightful is the one at Tanjung Kling. This is a predominantly fishing area and the *kampung* homes of fishermen face the sea. Small fishing boats and large bundles of net lie on the shore. Over the years, what used to be a quiet area has now become a busy street with night stalls. *Ice-kacang* can be purchased here for just RM1, complete with plastic cup and thick straw! That's a steal compared to the RM4 charged in upbeat areas in Kuala Lumpur. Tanjung Kling is also the best place to buy fresh fish and seafood. After all, the stalls here belong to the fishermen themselves, as do many of the seafood corners.

Despite its rapid development, Melaka has managed to maintain its old charm. This is evident not just in the old structures that can be seen on almost every street, but also in the friendly and warm persona of its people. Topped with the tranquillity and natural beauty of its beaches, Melaka is a great place in which to unwind and relax; a perfect setting for a weekend escape. AT

One of the most peaceful and revered sites … the ruins of St Paul's Church

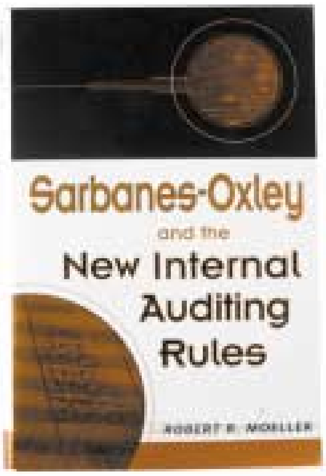
Shops selling souvenirs for tourists are found at every nook and corner

Klebang Beach, a local favourite for evening strolls

Portuguese ship … 'Flor De La Mar'

SARBANES-OXLEY and the New Internal Auditing Rules

By Robert R. Moeller



Publisher: John Wiley
Pages: 320

Without doubt, the Sarbanes-Oxley Act has brought about tremendous changes in the financial industry. When the US Congress gave the green light to the new piece of legislation in 2002, it was certainly a major event. It brought about major changes for both internal and external auditors. It also impacted the senior management and directors.

In a way, it was quite an unexpected development. For the number crunchers, the turn of the century came with the cataclysmic predictions of computer systems and other process-related disasters. Remember the Y2K scare? Accountants and other professionals were bracing themselves for any unforeseen eventualities.

Year 2000 came and went, quite uneventful. However, the following year became a real disaster for many US accountants and auditors, as well as business in general. First, you had the bubble bursting on the long-running stock market boom. Then came the Enron collapse. How the company deceived investors with its off-balance sheet accounting to hide major debt balances has now been thoroughly reported. At about the same time, the business world was further burdened with news of the inflated profits at WorldCom.

These highly-publicised corporate shenanigans moved the US Congress into action. The lawmakers felt that the existing process of establishing auditing standards and monitoring public accountants was not working.

The result: the Sarbanes-Oxley Act. Robert R. Moeller, an internal audit specialist, says it has caused 'radical and strong new rules' for public accounting, corporate governance and others.

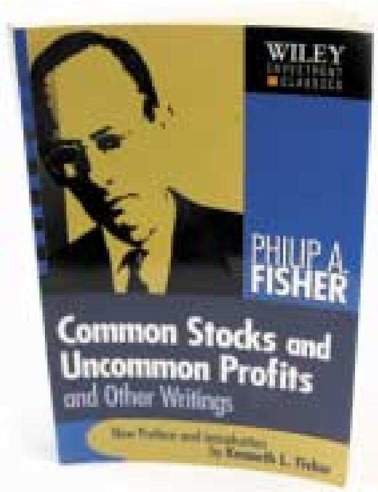
The Act, with its public accounting firm regulatory authority, the Public Corporation Accounting Oversight Board, is a major component of new rules.

The book attempts to introduce these new rules from the perspective of internal auditors and audit committee members with responsibility for their internal audit functions.

Moeller is a CPA, CISA and a CISSP. He has managed several information system audit functions and served as audit director for Sears Roebuck. Since the 1990s, he has been on the speaking circuits. AT

COMMON STOCKS AND UNCOMMON PROFITS and Other Writings

By Philip A. Fisher



Publisher: John Wiley
Pages: 292

With the local stock market barometer inching its way up, one would be tempted to look for the next stock that will flex its muscles. Needless to say, some fundamental rules will always be at work when making such decisions. To revise some of the points, *Common Stocks and Uncommon Profits and Other Writings* may be of help.

It's an old book, written during the time the British were leaving Malaya. Hence, you note that it has been bundled under the Wiley Investment Classics.

Philip A. Fisher can be ranked amongst the most influential investors of all time. Coming into the financial world as a securities analyst in 1928, he later funded Fisher & Company, an investment counselling business in 1931. His dabbling in the financial world has enabled him to carry the tag as one of the pioneers of modern investment theory.

In this seemingly brief book, the author attempts to answers questions like what to buy, when to buy and when to sell?

On the topic of 'what to buy', he outlines 15 pointers. Among them, he asks if the company has an above-average sales organisation and does the company have a worthwhile profit margin? He also suggests that we should be concerned about what the company is doing to maintain or improve its profit margins.

These points are enough to tell you that this is not a book for the punters. Fisher shares two pointers from his years of experience in investing. First, he calls for 'patience if big profits are to be made' from investment. 'The other is the inherently deceptive nature of the stock market,' he warns.

Among others, in the first section of the book, the author also talks about dividends and finding a growth stock.

Part two of the book, entitled '*Conservative investors sleep well*', starts by defining what constitutes a conservative investor. It then goes on to look at the mistakes that helped produce a bear market. Next, what one can do to survive, and prosper.

Part three of the book is entitled '*Developing an investment philosophy*'. Here, Fisher discusses issues like the origins of philosophy, learning from experience and the efficiency of the market.

To be sure, this is not a book of instant ideas to jump into the stock market. It urges readers to think intelligently before making the leap. AT

Workplace Stamina

By Stella Prasad

There are no 'ifs and buts', the more you can reveal your value to your future employers, the more likely you are going to be the one to be hired. With so much advanced technology and higher skilled personnel around, employers are becoming increasingly concerned with making sure they have chosen the right workers.

Workplace stamina is the buzz phrase on the lips of many potential employees, and one you will want to convey when you sit face-to-face with a potential employer. The phrase does not mean that you are a plodder and you work like an ox; but rather that you have a desire to work — that you know how to achieve goals, and that you have the necessary commitment to see business projects through to their conclusion. Importantly it might also mean to your potential employer that you could be entrusted with and could more than likely wind up handling a variety of tasks.

A management consultant I spoke to the other day observed, " Mergers and acquisitions are commonplace these days, and we are finding that people who have lost their jobs as a consequence are being absorbed into similar companies. As is quite often the case the smaller companies usually don't have specialised staff or positions as do the larger firms. Thus employment seekers will find themselves being hired if they can show versatility, i.e. they can do more than just one job." His words rang true, as I do know that constant studies, by companies trying to keep a low payroll, reveal the importance of hiring people with abilities beyond one specific job.

To illustrate, a displaced sales manager for a large company might find employment as a sales and marketing manager for a smaller operation. Instead of being confined to just supervising sales, this individual might find advertising, product management as well as market research under his portfolio.

In today's business world, there are no shortage of jobs and opportunities for those who can prove their ability to handle the increased corporate workload. Many people have come to realise that the time they spent in related fields linked to their present appointment, have been valuable and very much to their advantage as organisations are always preoccupied with ways to consolidate management.

The days of the corporate castle — departments created to suit individual managers — are over; jobs that were built for the benefit of staff and not for the good of the company have been discarded. You don't hear anymore that a person is indispensable ... because he/she is the only person who can handle the job!

So what is it that clinches your employment at the interview? Both industry experts and consultants are in agreement that at initial interviews, potential employees should take the opportunity to not only sell their technical ability to get jobs accomplished, but also display commitment — and convince the interviewer — that any given job will be completed.

Yes, the job applicant must realise, these workplace stamina qualities have become significant yardsticks for companies looking to succeed in the new millennium.

At the interview you should impress upon your intending employers that you are aware that accepting the job might mean that you have to work extra hours or make sacrifices to your personal life for the good of the company. Some people are naturally slow and if you happen to be a fast worker that will be appreciated too, especially if you can influence other co-workers as well to pick up your good habits. Observe some of the job traits of your key company managers, and emulate these.

Managers like to hire people that they feel they can get along with, and there is nothing wrong with that concept. If the candidate is very different, from the manager conducting the interview, in views and approach to work than he or she would be starting off at a sharp disadvantage. If despite the differences the candidate gets selected, that disadvantage can carry over into the job. The onus will be on the new employee then to take quick, positive steps to rethink his/her approach to the job and be guided by those qualities of the boss.

Workplace stamina of each new employee has to manifest in many other ways — in character, discipline and work ethics. Each organisation will have its own corporate culture, some of which will be revealed in staff and policy circulars, and the new employee should get thoroughly familiarised with these. What is not written can be learnt through observing your peers in the organisation. All modern corporate bodies have adopted organisational development programmes that encourage group tasking and teamwork. The new employee has to be an effective 'teamster' to get anywhere ... to ensure career advancement.

Remember the phrase "workplace stamina" — and for you job seekers, it's your ticket for success. Having got the job, "if the president of the company comes to his office by 7.30 a.m. ... be sure, you are there ahead of him". That's certainly one of the many ways in showing one's commitment! AT

To Get Ahead, Put Others First!

By Genevieve Wordsworth

To some people the idea of serving others (servanthood) is visualised as an activity performed by relatively low-skilled people at the bottom of the social rung.

Nothing is further from the truth — it is a wrong impression, military personnel and Government employees are only too aware that signing off as "your obedient servant" is more an attitude, and not one of position or skill. You have undoubtedly met people in service positions who have a poor attitude towards their job: the rude government servant, the waiter who ignores your calls to take your meal order, the bank clerk who talks endlessly on the phone to her friend instead of attending to customers queuing up.

Just as you experience others not wanting to serve you, you can also detect whether a manager or leader has a servant's heart. The truth is that the best leaders are those who desire to serve others, not themselves!

Embodying the Quality of Serving Others

"The true leader serves — serves people, serves their best interests. In doing so the leader may not always be popular or may not even impress. But because they are motivated by loving concern rather than a desire for personal glory, such leaders are willing to pay the price in humility."

A true serving leader:

1 Puts Others Ahead Of His Own Agenda

The first mark of service to others is the ability to put other people ahead of yourself and your personal wants. It goes beyond merely willing to put your agenda on hold — it means being aware of your people's needs, being available for them, and accepting their desires as important.

2 Has The Confidence To Serve

The confidence to serve comes not from an act of superiority but from a feeling of security. How we treat others is also a reflection of how we feel about ourselves. We are tolerant towards others when we tolerate ourselves; we hate others when we hate ourselves; we love our neighbours as ourselves; and we do unto others as we do unto ourselves.

The Law of Empowerment states that only secure leaders give power to others — it's also true that only secure leaders exhibit servanthood.

3 Initiates Service To Others

Our society is such that anyone will serve if compelled to do so, some will serve in a crisis. However you really see the heart and compassion of someone when he or she initiates service to others by getting the community involved. Great leaders see the need, seize the opportunity, and serve without inhibition, without expecting anything in return.

4 Does Not Clamour For Position

The good leaders do not jockey for positions or focus on ranks. They see this act of serving others as one person helping another; being leaders gives them a greater sense of obligation to serve. Warriors, leaders in military conflicts, selflessly risk danger to go out and serve their fellow man — they do not seek honour or glory, but do it in pure service.

5 Serves Out Of Pure Love

Servanthood is not motivated by manipulation or aggravated by self-promotion … it is actually fuelled by love and compassion. In the end, the extent of your influence depends on the depth of your concern for others. That is the reason why it's important for leaders to be willing to serve.

Reflecting on Servanthood

Where is your heart when it comes to serving others? Settle the issue of your desire to serve others …

- *Stop* lording over people and *Start* listening to them.
- *Stop* role-playing for advancement, and *Start* risking for the benefit of others.
- *Stop* seeking your own way, and *Start* serving others.

'You have got to love your people more than your position. You who wish to be great must be like the least and servant to all.'

Tips to Improve Yourself

- **Perform Small Acts of Kindness.** Can you recall the last occasion you carried out small acts of kindness for others? Commence a programme with those closest to you such as your parents, spouse or children — show them you care.
- **Learn to Tread Slowly.** The next time you have to attend a large gathering or meeting, try working your way through the crowd slowly. Make it a point to connect with as many people as possible – circulate and communicate to people. Focus on the individuals you meet: their names, their work, their needs, wants, desires, etc. Later, when the function is over and you are at home, make a note to do something beneficial for half a dozen of those people.
- **Move into Action.** If service as a character is conspicuously absent from your life, the best way to correct this anomaly is to start serving. Begin serving with your body (a physical act) and your heart will eventually catch up (a conscientious act). Sign up to serve others for six months at your church, mosque or temple — or a community agency, a volunteer organisation. Keep working on your attitude, until your heart changes. AT

WGMA Explores Cross Border Affiliation Possibilities with Singapore Firms

The Working Group on Mergers and Acquisitions (WGMA) made a trip to Singapore on 22 April 2004 to pay a formal visit and establish ties with the Institute of Certified Public Accountants of Singapore (ICPAS).

The objective of the visit was the first step in WGMA's 'ASEAN CONNECTION' strategy to explore the opportunities of affiliation with firms in Singapore before going international.

Chaired by Raymond Liew, a Council Member of MIA, WGMA was formed in March 2003 to provide guidance to members on relevant issues pertaining to mergers, affiliations and acquisitions of firms leading to eventual consolidation, expansion and succession of practices.

The delegates from MIA were:

- Raymond Liew, *Council Member and the Chairman of WGMA*
- Sam Soh Siong Hoon, *Johor Branch Chairman and a Committee Member of WGMA*
- Lim Kien Chai *Committee Member of WGMA*
- Tarana G. Ramchand, *Secretariat.*

ICPAS was represented by:

- Ernest Kan Yaw Kiong *Vice-President of ICPAS*
- Kon Yin Tong, *Chairman of Public Accounting Practice Committee (PAPC)*
- Lee Chee Wung *Deputy Chairman of PAPC*
- Khoo Ee Bin
- Lisa Liew Geok Bee
- Clement Tan Kian Leng
- Teo Meng Hua *(all Committee Members of PAPC)*
- Luar Eng Hwa, *Committee Member*
- Janet Tan, *Executive Director of ICPA*
- Ramchand Jagtiani *Deputy Director, Technical Division*
- Eunice Thio, *Secretariat.*

About ICPAS

ICPAS is the national organisation of the accountancy profession in Singapore. It was established in June 1963 as the Singapore Society of Accountants (SSA) under the Singapore Society of Accountants Ordinance, then reconstituted and renamed ICPAS on 11 February 1989, under the Accountants Act 1987. As of 1 April 2004, ICPAS was reconstituted as a society under the Societies Act. Though ICPAS has been reconstituted as a society, their function and role as a whole is more or less the same as before with the exception of licensing and regulating of their practising members. For information purposes, the designation Chartered Accountant in Malaysia is protected under Section 22 and 23 of the Accountants Act, 1967. In Singapore, this is not the case. Members in Singapore are allowed to call themselves accountants regardless of whether they are registered with ICPAS. Members who are registered with ICPAS use the professional designation "Certified Public Accountant Singapore" or its abbreviation "CPA Singapore". This collective mark has been registered with the Intellectual Property Office of Singapore and is pending approval.

Their membership started out with 200 members in 1963 and has grown significantly over the years. ICPAS's membership is divided into four categories.

- Practising
- Non-practising
- Honorary
- Provisional

Provisional members of the Institute are those who have the relevant qualifications and are graduates from universities in Singapore but do not possess the required years of work experience to qualify as a full member of the Institute.

Membership statistics as at 12 April 2004 is as follows:

Seated from L-R: Janet Tan, Teo Meng Hua, Lisa Liew* & Tarana Ramchand*
Standing from L-R: Clement Tan, Lee Chee Wung*, Luar Eng Hwa*, Kon Yin Tong*, Sam Soh, Tan Boen Eng, Raymond Liew, Lim Kien Chai, Ramchand Jagtiani, Khoo Ee Bin**
** Members of the Public Accounting Practice Committee chaired by Kon Yin Tong*

Practising CPAs	753
Non-practising CPAs	11,633
Provisional members	3,876
Total members	16,262
Total number of firms	574

Eighty per cent of the firms in Singapore are sole-proprietors and the formation of new firms has dropped significantly probably due to the audit exemption for private exempt companies introduced recently in Singapore.

Regulatory Environment

Singapore has experienced a significant change in their regulatory environment. One such change is the amendment to the Accountants Act 1987, which is now the Accountants Act 2004. The other change was on 1 April 2004 whereby the Registry of Companies and Businesses (RCB) and the Public Accountants Board (PAB) came together as a new statutory board under the Ministry of Finance (MOF).

The RCB is a department under MOF that oversees the formation of companies and businesses in Singapore, and maintains a repository of corporate records and business information. The PAB, on the other hand is a statutory board under MOF which registers and regulates public accountants in Singapore.

The merger brought together two agencies with regulatory oversight of businesses, one to assure compliance with the laws for companies and businesses, and the other to assure professional standards in the audit of company accounts. The recent enhancements to Singapore's corporate regulatory and governance framework means more effort to monitor the observance of business regulations, simplification of rules as much as possible to facilitate business, helping companies to comply with the code of governance, and enforcing compliance with the prescribed accounting standards.

This new statutory board will work closely with other government agencies such as the Attorney-General's Chambers, the Monetary Authority of Singapore and the Commercial Affairs Department, as well as professional organisations such as the Law Society, ICPAS and the Singapore Association of the Institute of Chartered Secretaries and Administrators, to maintain standards and help companies adopt good practices in corporate governance. It will also support the Council on Corporate Disclosure and Governance.

Audit Exemption

The Finance Minister in Singapore announced in Budget 2003 that audited accounts will no longer be required for dormant companies and Exempt Private Companies (EPCs) with annual turnover of S$2.5 million and below for financial periods commencing on or after 15 May 2003 and this will be raised to S$5million for financial periods commencing on or after 15 May 2004.

A dormant company is defined as a company with no accounting transaction taking place during a financial year. A dormant company can either be a public or a private company. A company can be dormant from the time of formation or become dormant from the close of its accounting year. Dormant companies exempt from audit requirements are still required to send annual accounts to their shareholders and file the annual return to the Registrar of Companies. The directors have to confirm that the company is dormant and that the company has maintained proper books of accounts during the year.

EPCs are defined as companies whose shareholders are all natural persons. This means that no shares are owned by a company (corporate shareholders). Subsidiaries or foreign companies are not EPCs as the parent company is always a corporate shareholder. Though EPCs, whose annual revenue are S$2.5 million and below, are not mandated to audit their accounts, they must however continue to maintain proper accounting records and prepare financial statements that comply with the Financial Reporting Standards. Nevertheless, in case a minimum of five per cent of the shareholders of a dormant company or EPCs still want to have their accounts audited, the company is obliged to do so.

Prior to the reinforcement of audit exemption in Singapore, the government had formed three committees to review the Corporate Regulations and Governance. They are:

- Corporate Governance Committee (CGC)
- Disclosure and Accounting Standards Committee (DASC)
- Company Legislation and Regulatory Framework Committee (CLRFC)

A consultation paper by the CLRFC was issued in October 2001 to seek feedback on the issue of audit exemption. ICPAS had organised a forum to discuss the paper with members and had made its submission taking into account members' views. The Institute had a dialogue session with the Senior Minister of State for Education and Trade & Industry to discuss the issues raised by the recommendations of the DASC. ICPAS had also launched two publications, "The Benefits of an Audit" and "Investing in an Audit" on the values of audit to help members enhance their clients' understanding.

Another initiative undertaken by the Institute was the preparation of a report to CLRFC on the removal of the statutory audit requirement. They had provided the CLRFC with detailed comments to the various recommendations. Briefly, ICPAS agreed with the recommendation to exempt dormant companies from filing audited accounts and with the recommendation to empower the Registrar of Companies and Businesses to require a company to submit audited accounts. However, they were not agreeable to the recommendation to exempt EPCs from the statutory audit requirement on the following grounds:

- An audit poses minimal costs to the business
- It is a fallacy to equate EPCs with small businesses
- Leading jurisdictions have different cultural, business and legal environments with much more developed economies and a wider base and depth of businesses, even then, these jurisdictions prescribe levels of turnover beyond which an audit is required
- Market forces may not always play an effective role
- There are other stakeholders and users of audited financial information
- The issuance of a certificate for EPCs when such accounts are not filed is an attestation of solvency
- Lack of willingness to prepare proper accounts and enforceability in the local environment
- The decision to exempt EPCs would be irreversible
- The benefits of an audit far outweigh its costs

ICPAS had conducted a search on the number of EPCs operating in Singapore and reported that almost 75 per cent of the companies in Singapore fall into the category of EPCs.

Subsequent to the numerous discussions as well as consultations, the Singapore Companies Act (the Act) introduced in December 2002 and May 2003 which are based on the recommendations of the DASC and CLRFC, was introduced and have had widespread effects not only on accounting and company secretarial practices but also on management of corporate businesses.

However, the effect of the audit exemption in Singapore is yet to be seen since it only affects financial periods commencing on or after 15 May 2003. ICPAS foresees the effect of audit exemption to surface next year. ICPAS had reported that smaller practitioners had indicated their intention to "close off" their business, as they may not be able to cope with the competition.

Possible Cross Border Alliances

It seemed timely that we were visiting ICPAS on the issue of cross border alliances as smaller and medium-sized practitioners are now more interested in affiliating their firms with firms in our country to increase business opportunities.

We were prepared with a presentation and Lim Kien Chai presented the affiliation model of the WGMA to our counterparts. The presentation was divided into two sections, the Business Practice Model and the

Legal Model. In brevity, the Business Practice Model has four stages:

- Pre-affiliation
- Affiliation
- Affiliation and Joint Partnership
- Joint Partnership

The legal model is basically the various agreements that are required for the stages concerned.

The representatives from ICPAS were very receptive to the idea of cross border alliance and had indicated that in view of the challenges faced by the firms in the country, it is high time that other alternatives be explored.

As this was the initial meeting to gauge the interest from our counterparts, the intrinsic details of the alliance have yet to be discussed and formalised. The follow-up meeting has been decided tentatively for 21 May 2004 to discuss the possibility of organising a joint forum inviting members from both MIA and ICPAS to meet and discuss on possible affiliations among firms from these two countries.

Other Matters

The other area that we discussed was the issue on Anti-Money Laundering and how ICPAS is playing a role in educating their members in this area.

In Singapore, since 1999 it has been mandatory to make a suspicious transaction report (STR) if a link between property and drug trafficking or criminal conduct is suspected during the course of one's profession or employment. Suspicious Transaction Reporting Office (STRO) of the Commercial Affairs Department, Singapore Police Force is the central agency in Singapore for receiving and analysing STRs.

Various seminars have been organised to educate members on the accountancy profession's role in suspicious transaction reporting. Members were directed to the "Must do's" and the "Must not do's". A few examples would be one must not be involved inadvertently nor can one pretend not to know, be ignorant of the law or turn a blind eye to such activities. Tipping of the offenders is also considered a criminal offence but it is recognised that in practice, it may be difficult to distinguish between the auditors' responsibilities and avoidance of tipping off. As for actions to be taken, members are again reminded to make STRs.

Our Chairman, Raymond Liew also enquired on the status of the practice review in Singapore.

The Practice Review Programme, which was subsequently renamed Practice Monitoring Programme or PMP, was introduced by ICPAS in 1994, and ran on a three-year cycle. The main objective of PMP is to ascertain whether public accountants adhere to professional standards.

ICPAS ceased its monitoring programme in January 2003, following the commencement of the Practice Monitoring Programme by the then Public Accountants Board (PAB), the regulator and licensor of public accountants in Singapore. The PAB has merged with the Registry of Companies and Businesses on 1 April 2004 and the merged entity is known as the Accounting and Corporate Regulatory Authority (ACRA). AT

Any member who wishes to discuss cross boarder affiliation or is interested to partake in such an arrangement, may contact the Institute for either Johnny Yong or Tarana on 603-2279 9200. Alternatively, you may wish to communicate directly with the Chairman of the working group, Raymond Liew at raymond-liew@raymond-liew.com

MIA New Logo Design Contest —

Brainstorming and Evaluation Exercise Retreat in Port Dickson

The Institute recently embarked on a project to enhance its corporate image and branding strategy. This exercise was driven by the need to reflect and remain relevant with the dynamic demands and evolving trends of business in the global environment within which the Institute operates. It was also meant to further promote the Institute and its functions apart from keeping up with increasingly shifting business landscapes that are driven by technology and globalisation.

The team at the MIA New Logo Design Contest — Brainstorming and Evaluation Exercise. On the same day a surprise cake-cutting ceremony was organised for the MIA President who was celebrating his birthday

It was generally felt that a revamp of the Institute's corporate façade was timely and in keeping with changing times, it was decided that a new logo with a corporate contemporary feel was necessary. To achieve this, the "MIA Logo Design Contest" was conceived and subsequently implemented.

The competition received a rousing response, with over 130 design submissions from members, students and Secretariat staff. Competitors were given guidelines to adhere to and asked to come up with designs that would best meet the Institute's objectives.

Once all the designs were received, a retreat cum brainstorming session was held at the Corus Paradise Resort, Port Dickson, Negeri Sembilan on 27 and 28 March 2004 to select the winning logos.

Apart from selecting the best logo design entries, the aim of the session was also to identify a new tagline for the Institute to reflect its role and functions.

The meeting kicked off with an introduction by the Master of Ceremonies, Iszudin Md Amin, welcome remarks by the Chairman of the Public Relations Committee, Datuk Nur Jazlan Tan Sri Mohammed and MIA's President, Datuk Dr. Abdul Samad Hj Alias respectively.

In PD, the session was chaired by YM Raja Dato' Seri Abdul Aziz Raja Salim who is also the chairman of the Task Force appointed to spearhead the logo design project initiative. Incidentally, he happened to be one of those involved in the design of the present MIA logo.

Also present were the Institute's President Datuk Dr Abdul Samad Haji Alias, the Registrar Mohammad Abdullah, the Institute's Executive Director Ho Foong Moi, Public Relations Committee and Editorial Board members and secretariat staff.

Brainstorming session in progress

After that, Iszudin explained the rationale of the present MIA logo and this was followed by a presentation titled "What Makes A Good Logo Design?"

The presentation was ultimately aimed at informing the Selection Committee on the elements to look for in a winning logo. Due to his vast experience and involvement in the Institute's present logo design, YM Raja Dato' Seri Abdul Aziz was also asked to share some insights on what the new logo should represent.

The presentations were very informative, and seemed to have facilitated the committee during the selection process as they evaluated and gave constructive comments about each of the logos. At the same time, the committee further deliberated on the elements which needed to be reflected in the new logo.

To commence the evaluation process, the committee viewed 37 short-listed designs from the total 134 submissions and narrowed those down to the best 13 designs for further evaluation. Later in the afternoon, after screening 13 designs, they further short-listed the final eight designs which were eligible for prizes. Five will walk away with consolation prizes.

All present shared their comments on chosen designs and suggested several improvisations should one of it be adopted as the logo. The committee then went through a series of exercises to select the three most preferred designs.

Later in the evening, another workshop was held to choose the new MIA tagline. Several taglines were suggested and after due consideration, three of the best were chosen.

It was decided that the final result — for the winning logo and the best tagline — would ultimately be made by the EXCO members and Council members and a presentation would be held at the next EXCO and Council meetings to achieve this.

The results of the contest will be published in the mainstream media, *Accountants Today* and winners will be notified via e-mail. AT

Best Internal Audit Practice Inaugural Awards 2004

As the Malaysian corporate scene strives to become an increasingly accountable and transparent playing field, internal audit is rapidly beginning to assume a strategic role as an organisation's corporate governance partner.

More local companies are beginning to realise that having an internal audit department to enhance their business operations and performance, while at the same time providing stakeholders with much-required assurance, is becoming an imperative if success is to be achieved.

This surge in awareness has also spurred corporate Malaysia to walk the talk by actually taking steps to establish internal audit departments within their organisations to evaluate and improve the efficacy of corporate governance, risk management and internal control.

However, it has not just stopped there. An increasing influence of international governance standards and growing expectations that internal auditors should be savvy enough to provide assurance beyond the basic control framework are further driving the evolution of the internal audit process.

"Taking heed of these significant developments within the local corporate sector and the newly evolved role of internal audit, both the Institute of Internal Auditors Malaysia (IIAM) and the Malaysian Institute of Accountants (MIA) felt it was necessary to give due recognition where it is deserved and that was the factor that led to the conception of the Best Internal Audit Practice Inaugural Awards 2004," the joint chairman of the Selection Committee Raymond Liew said during the launch event of the awards at the Mandarin Oriental Hotel in Kuala Lumpur on 20 April 2004. "We felt that there was a need to reward successful organisations that leverage on stringent and effective internal audit practices", he added.

Taking questions from the press … Bursa Malaysia Securities Bhd's CEO, Yusli Mohd Yusoff (centre) with BIAPA organising committee joint chairpersons, Raymond Liew (left) and Wee Hock Kee, IIAM President

Watching the multimedia presentation

The awards, according to Liew will be given to organisations that demonstrate continuous development and promotion of best practice in internal audit, promotion of leadership and professionalism in internal audit and enhancement of internal audit roles in corporate governance, risk management and internal control.

"The awards are open to companies with in-house internal audit departments only and will comprise two categories namely the Bursa Malaysia Securities Berhad listed companies, non-listed companies and the public sector."

For the nomination process, companies will be required to fill up the relevant nomination form and answer a set of questions relating to their internal audit departments. The questions are directed towards the four broad areas mentioned and would allow for screening entries from participants, he further explained.

The Selection Committee will be responsible for carrying out the first screening and short listing of entries received. Short listed companies would then be subjected to another round of adjudication by the Adjudication Committee.

The distribution of the nomination forms will commence on May 1, 2004 while the submission deadline is by 30 June 2004. The awards presentation dinner will be held on 29 September 2004 at the Mandarin Oriental Hotel.

Winners of the awards will walk away with prizes that include the Challenge Trophy and a Replica Trophy, a Certificate of Excellence, congratulatory letters to the CEO/AC Members from the MIA and IIAM Presidents, announcements in the newspapers, announcements in the newsletters/magazines and websites of both MIA and IIAM, complimentary vouchers entitling two representatives from the winners' organisations to attend the MIA and IIAM National Conferences and a special identification tag for the Internal Audit staff of the winners attending MIA/IIAM events the following year.

"Both the organisers of this awards, IIAM and MIA, hope that these awards will encourage local companies to strive towards a higher level of governance ownership by adopting global best practices, thereby enhancing Malaysia's image in the international business community", Liew offered.

National Award for Management Accounting Best Practice

In conjuction with the CIMA Management Accounting Conference 2004, which was held on 13 April 2004, the Malaysian Institute of Accountants (MIA) together with the Chartered Institute of Management Accountants (CIMA), Malaysia Division organised an event to launch the National Award for Management Accounting (NAfMA) Best Practice 2004.

NAfMA is an effort to promote the use of management accountancy by local and multinational organisations in the quest for corporate excellence. The use of management accounting in fine-tuning the management and operational aspects of an organisation has presently become a widely accepted global business practice. As it gains popularity worldwide, Malaysian organisations too are encouraged to adopt and practice these concepts in their quest towards attaining world-class status.

The main objective of the NAfMA awards is to give recognition to organisations that adopt best practices in management accounting and to further encourage the application of the said accounting technique within the Malaysian corporate sector.

Apart from MIA and the CIMA Malaysia Division, the organising committee will also include the National Productivity Council (NPC) and the CIMA-UiTM Asian Management Accounting Research Centre (AMARC). The main sponsor of this event is Public Bank Bhd, which is proud to extend its support towards promoting business efficiency via management accounting, apart from contributing to the development of the Malaysian corporate sector.

To be held for the first time in Malaysia and possibly the Asian region, the NAfMA consists of three awards namely:

- **The excellence award:** The top award for the organisation with outstanding best practice in management accounting,
- **The best practice award:** For the organisation that fully implements management accounting systems that set new standards or introduce innovations in the workplace. These systems must have undergone benchmarking and testing and the outcomes must have been carefully measured, evaluated and documented.
- **The practice solution award:** Application of the most effective management accounting systems, tools or techniques that have had a positive impact on daily practice. This application may have led to quality or process improvement, improved efficiency, lowered costs or otherwise addressed a particular problem in the workplace.

The NAfMA awards are assessed in line with the International Federation of Accountants (IFAC) management accounting concepts and the areas of assessment include leadership, data information management, resource management, customer/market focus, partnership management, value creation, business results (performance measurement) and corporate social responsibility.

Launch of the National Award for Management Accounting Best Practice (NAfMA) ... (L-R) Yeo Tek Ling, NAfMA Organising Committee Chairman; Datuk Dr. Ng Yen Yen, Deputy Finance Minister; Claire Ighodaro, CIMA President; Datuk Dr. Abdul Samad Hj Alias, MIA President; Bill Connell, Chairman of IFAC's Professional Accountants in Business Committee and Dato' Lee Ow Kim, CIMA Malaysia President

The awards are open to companies listed under the Bursa Malaysia Securities Berhad (formerly KLSE) as well as multinational companies in Malaysia. Applications will be on a voluntary basis as disclosures of management accounting practices within the company will be required for evaluation of the adjudication committee.

The deadline for submissions of application documents is 25 June 2004. The adjudication process will take place from July to August while the awards presentation will subsequently be held in September this year. AT

For more information on NAfMA, please contact:
NAfMA Best Practice Organising Committee
c/o **CIMA Malaysia Division, 123, Jalan SS6/12**
Kelana Jaya Urban Centre, 47301 Petaling Jaya

Melaka Amanah Raya Berhad's Talk on Will Writing, Estate Administration and Trust Accounts

Rafie Omar, General Manager, Sales and Marketing of Amanah Raya Berhad giving his presentation to a packed room during the session.

Will writing, estate administration and trusts are matters that relate directly to accountants personally and relate to many of us professionally. Hence, MIA Melaka with the collaboration of Amanah Raya Berhad conducted a briefing for all members and member firms staff in Melaka on the above topic. The talk was conducted on 3 April 2004 from 10.00 a.m. to 12.00 p.m., at Hotel Sri Costa.

About 50 participants attended the briefing which was delivered by Rafie Omar, General Manager of Sales and Marketing, Amanah Raya Berhad who came from Kuala Lumpur to deliver his presentation. Due to the overwhelming number of questions, the session was extended for another half hour. MIA Melaka Branch Chairman, Abd Halim Husin who chaired the session hoped that another session could be arranged within this year to give members a chance to learn the technicalities of will writing, and *faraid* (Muslim's estate distribution).

Members who have embarked on or are planning to venture into financial planning services for their clients will benefit from the session.

Rafie Omar (left), General Manager, Sales and Marketing of Amanah Raya Berhad with Abd Halim Husin, MIA Melaka Branch Chairman.

Penang **MIA & IRB Renew Ties and Gain Insight on Tax Matters**

Over 60 MIA members joined representatives of the Inland Revenue Board (IRB) for a special 'luncheon dialogue' at the E & O Hotel in Penang on 12 April 2004 to renew old friendships, make new ties and clear the air about tax issues.

Representing the IRB were its branch head Wong Poh Lam, who is soon to retire and his successor Tuan Haji Shahmin Abdullah.

In his opening address, MIA Branch Chairman, Fan Kah Seong said, "The IRB has helped to ease some if not all the operational problems encountered by members in the course of providing tax services."

He also thanked Wong for his support and contribution to the Institute and its members during his two-year tenure, mentioning in particular his agreement to speak at two tea talks and his suggestion that the Institute organise a seminar on self-assessment for individuals. He wished Wong a happy retirement and welcomed Tuan Haji Shahmin onboard.

The Branch Chairman also said the Institute looked forward to working with the IRB, lending support where possible and assisting in organising seminars on topics of mutual interest in the quest to promote better tax compliance among Malaysians.

Among the topics discussed at the luncheon dialogue were the confirmation to include petrol and food allowances in PCB deductions while excluding payments to contractors or sub-contractors from Form E. It was also agreed that dormant companies file the Form C and R and inform the IRB immediately on their dormant status so the IRB could stop issuing forms to them.

When discussing various CP 500 issues, the IRB reiterated that in the self-assessment regime, taxpayers must be held responsible for ensuring that tax paid is reflective of their liability. Since they know best what they will earn, the onus is on them to submit revised estimates to substitute that made by the IRB.

Lastly, issues on the commencement of operations/businesses and the determination of the 'first basis period' were discussed where members were cautioned not to confuse the former with the submission of returns. It was later confirmed that the forms downloaded from IRB's website could be used for submission purposes.

(L-R) IRB's Shamin Abdullah, Wong Poh Lam and MIA Branch Chairman Fan Kah Seong


A cross section of the participants at the luncheon dialogue

Sarawak Tax Audit for Company Directors

The Sarawak Branch organised a one day seminar titled *Tax Audit and Company Directors* in Kuching to give participants more insight into the topic. Aimed at educating them towards better understanding of the topic, the seminar saw the participation of 185 members and non-members.

In his welcoming address the Sarawak Branch Chairman David Tiang stated that the huge turnout demonstrated the level of interest people have on this subject. He added that the response to the seminar was extremely encouraging and it could perhaps have been a record-breaking feat; having the participation of so many people from all sectors of commerce and industry as well as the Institute's members.

The seminar was supported by the Sarawak Manufacturers Association, the Sarawak Chamber of Commerce and Industry, the Dayak Chamber of Commerce and Industry and the Bumiputra Chamber of Commerce and Industry. AT

(R-L) Luke Chan, Datuk Dr. Philip Ting, Kueh Chen Chen and a fellow participant

David Tiang (left) with Chai Foh Chin of SMA

Some of the participants at the seminar

Sarawak Dialogue with IRB Director

The Sarawak Branch recently concluded its annual dialogue with the Inland Revenue Board (IRB) in Kuching. MIA Sarawak was represented by Branch Chairman David Tiang Kung Seng and the Branch's Tax Sub Committee Members. A total of 14 operating issues were submitted by member firms for deliberation at the dialogue session.

IRB was represented by its Sarawak State Director Tuan Haji Abdul Rahim Abdullah and he was supported by senior IRB officers from Kuching, Miri, Sibu and Bintulu.

Some of the issues discussed included tax variations and refunds, tax credit set-offs, field audit penalties, technical adjustments, and double deductions among others. Also present at the session were members from member firms in Kuching, Sibu and Sri Aman. AT

Sarawak MIA-IRB dialogue in session

ACCA Education Conference — Globalisation of Education: Impact and Consquences

The Association of Chartered Certified Accountants (ACCA) recently organised a conference on *Globalisation of Education: Impact and Consequences* in Kuala Lumpur. Deputy Minister of Higher Education, YB Datuk Fu Ah Kiow, officiated the event and delivered the Keynote Address.

The conference addressed and debated trends, issues and challenges from the effect of globalisation on education and development. The conference echoed and reiterated what our Prime Minister Datuk Seri Abdullah Ahmad Badawi said on the need for an "education revolution" to ensure competitiveness through the quality of the nation's human capital. The conference brought together a group of thought leaders, educationists, policy-makers and corporate leaders to share, engage and explore the relevant topics on the conference theme.

The conference papers included:

- Impact and challenge of globalisation towards education — the Big Picture.
- Changing roles of stakeholders in education and their strategies and thoughts in shaping the directions and future of education.
- New enablers and production of education and the tensions between education traditionalists and reformers.
- Convergence and divergence of the national education strategy, and its effects on infrastructure and attitudes.

126 participants from various public and private universities attended the conference.

YB Datuk Fu meeting the participants of the conference after officiating the ACCA Education Conference

The conference was timely, as it brought to the table, the education issues and debates that are current, thought provoking and relevant to both policy makers and educationists, more so for the new Ministers in education, said, Tay Kay Luan, Head of ACCA Malaysia.

In welcoming the participants, YBhg Dato' Khalid Ahmad, President of ACCA's Malaysia Advisory Committee reminded participants that education and human capital development go hand in hand. "They in turn are impacted by technology, market forces, consumer tastes and regulation," he said. AT

Employers' Thought Leadership Programme:

ACCA Working with Ford Malaysia and IBBM

As part of its employers' thought leadership programme, ACCA organised two luncheon talks with Ford Malaysia and IBBM (Institute of Bankers Malaysia) titled *"Corporate Sustainability Reporting"* in March 2004.

"Companies are under mounting pressure from investors, governments, NGOs and other stakeholders to demonstrate their efforts to manage the effects of their operations. The bottom line needs to show more that just profit and loss. It must also reflect how transparently their businesses are governed, their roles in society and the impact of their activities on the natural environments," said Tay Kay Luan, Head of ACCA Malaysia.

The talk was delivered by Rachel Jackson, Head of Social and Environmental issues.

A total of 46 finance professionals from both organisations attended the talk which focused on concepts and the application of corporate sustainability reporting, best practices and successful factors.

This is part of an ACCA lecture series that aims at sharing and contributing thought leadership ideas with business leaders and employers in Malaysia. AT

Shah Ghani, Corporate Affairs Advisor, Ford Malaysia

Participants busy taking down notes

CIMA

A New Global Business Qualifications Framework

One of the first to benchmark against International Education Standards

CIMA has launched an exciting approach to professional financial and business education and training with the introduction of a new generation of CIMA qualifications following one of the largest pieces of research ever undertaken by CIMA. The internationally - based research consulted CIMA members, students and employers — both current and prospective — on a global scale across a full range of private and public enterprises. The new CIMA Professional examinations have been developed in partnership with the University of Bath's School of Management, one of the top business schools in Europe. The qualifications were approved unanimously by CIMA's Council in London in October 2003 and will first be examined in May 2005.

In launching these groundbreaking updates to the CIMA qualifications, the driving force behind the changes have been:

- the rapidly changing business and regulatory environments;
- the new IFAC* International Education Standards which come into force on 1 January 2005; and
- CIMA's focus on ensuring that employers are increasingly attracted to the CIMA Qualification.

In this environment, CIMA, as one of the largest chartered professional accounting bodies in the world focused solely on the training of accountants in business, is committed to providing Chartered Management Accountants with leading edge, best business practices in financial management, business ethics and corporate governance.

At the launch of the new CIMA professional qualifications in the UK on 30 January, Claire Ighodaro, CIMA President, said:

"Today is not just about the core CIMA qualification but something wider and even more challenging. Uniquely, CIMA has spent the last eighteen months developing a 'joined up' framework which synthesises what is its core qualification, the Chartered Management Accountant, with continuing professional education — CIMA Professional Development — to fulfil CIMA's life long learning agenda."

The responsibility of CIMA, its members and students, to act in the best interests of their employers and the public, is critically underpinned by the quality of the Chartered Management Accountant Qualification and the commitment of CIMA members to keep up to date in their chosen employment while complying with a set of CIMA ethical guidelines.

There are major structural and content changes to CIMA's portfolio of professional qualifications and the way in which the qualification is assessed, in order to enhance the differentiation of the Chartered Management Accountant from their competitors in the eyes of both employers and students.

Committed to best practice internationally, CIMA believes that this set of changes is one of the first to be benchmarked against International Education Standards.

CIMA's President added: "CIMA has a total business focus — 99 per cent of CIMA members and students work in business and not in accountancy practices. This has enabled us to build on the unquestioned strengths of the current syllabus to deliver a new professional qualification with double the focus of any competitor on business management and strategic management accounting. Overall we provide more management, more management accounting, more project management and more strategy than any other UK accounting body. Our unique blend of academic training and practical experience will therefore continue to provide employers with what they want - Chartered Management Accountants who have the leading edge skills to drive business growth."

"There are other unique elements of the CIMA syllabus that will ensure that the CIMA Professional Qualification stands out from its competitors as the chartered qualification of choice for business. Our credibility is backed by a standard pass mark for all papers. Our students study the same syllabus worldwide, we have a major focus on ethics throughout the new syllabus and we are also the only body to focus on interpersonal skills as a requirement of the new Professional Qualification. This is all backed up by a unique focus on the practical, covering detailed project management and an IFAC compliant test of professional competence in the form of an international case study. We believe we are the first professional body to provide this."

CIMA's professional examinations now comprise three learning 'pillars' — Management Accounting, Business Management and Financial Management — comprising *nine* examinations. These are followed by a Test of Professional Competence in Management Accounting (a case study) which is preferably undertaken after passing the nine exams *and* gaining a minimum of three years of relevant practical experience defined by CIMA.

Claire Ighodaro concluded:

"CIMA has already provided its members with the groundbreaking fast-track link to the Henley MBA. We are delighted to announce today a further addition to the CPD content portfolio. Negotiations to link up CIMA Members to Harvard Business Publishing's (HBP) HarvardMentorPlus — on-line learning materials — have been completed and more details will be available shortly. The HBP link is unique certainly among the UK's Professional Accounting bodies and will be available to CIMA Members worldwide through the cimaglobal.com members' site. HarvardMentorPlus provides access to a vast range of 'Harvard' expertise which will greatly assist CIMA Members in keeping their knowledge and skills up to date." AT

For further information on CIMA's new generation of qualifications, please visit www.cimaglobal.com/professionalqualifications.

CPA Australia Awards Book Prizes to Top Scorers

Eight top scoring accounting students from Colleges and Universities in Malaysia have won the annual book prize awarded by the CPA Australia Malaysia Division.

They are: Yap Sook Chan from Universiti Sains Malaysia, Yeap Kai Lin from Sepang Institute of Technology, Kok Aik Lee from HELP Institute, Sitara Ramakrishnan from Kolej Damansara Utama, Nurul Shazwan Abdullah from Universiti Kebangsaan Malaysia, Nor Hannani Mahmud from IIUM, Lim Bee Ling from Taylor's Business School and Kan Chee Sum from Disted-Stamford College.

The award, valued at RM 300 each, is now in its second year. Launched in 2003, the award is offered to first year students instead of final year students, as is the norm, in universities and colleges.

"We want to encourage more students to choose accounting as their major, hence the decision to open the award to those in their first year," said Tam Kam Peng, Director of CPA Australia, Malaysia Division.

CPA Malaysia Division Director, Tam Kam Peng (right) presenting the book prize to the successful candidate from Help Institute, Kok Aik Lee

The selection of the top scorer in the overall first year accounting papers is done at the end of the academic year by the Head of Accounting programme or appropriate person(s) of the respective college or university.

Dr. Shahul Hameed Mohd Ibrahim, Head of the Department of Accounting from the International Islamic University Malaysia (IIUM) described the award a "good move" as it would encourage students to embark on accountancy as a profession. AT

Tax Changes Make Australian Business More Competitive

Legislation proposed by the Australian Government in the New International Tax Arrangements (Participation Exemption and Other Measures) Bill 2004 recently released will make Australian companies more competitive, reports *AccountingEducation.Com*.

The online report said that the simplification of the international tax process would reduce compliance costs for Australian companies.

In response to the Bill, KPMG said that it was the most important change to Australia's international tax laws in the last 15 years.

"Outside of the US, Australia's international tax regime has long been considered among the most complex in the world," says KPMG partner, Jason Chang. "The changes announced in this Bill significantly remedy this situation."

AccountingEducation.Com reports that the changes announced in the Bill relate to capital gains tax concessions for active foreign companies, foreign dividends, foreign branch income and tainted services income and will achieve three significant benefits for Australian businesses.

To begin with, it will allow Australian companies to compete on a more level playing field with global competitors by exempting gains realised from selling interests in foreign subsidiaries or from restructuring their corporate structure. This exemption has been available to foreign companies for a significant number of years, which has given them a competitive advantage over Australian companies competing globally.

On top of that, the report noted that the proposed legislation will allow Australian companies to repatriate profits from overseas by exempting dividends paid from overseas subsidiaries. This frees up capital for reinvestment by Australian businesses. AT

6-Month Bar Against E&Y Begins

A six-month bar against Ernst & Young from accepting new corporate audit clients began on 26 April , the US Securities and Exchange Commission said.

An administrative law judge at the SEC imposed the suspension on the nation's third-largest accounting firm on April 16 for compromising its independence by engaging in a lucrative business deal with a company whose books it audited, according to an *Associated Press* report filed in from Washington.

The Washington-based report further said that the judge also ordered Ernst & Young to pay US$1.7 million in restitution, plus interest. It was the first time the SEC had sought the suspension of a major accounting firm since 1975.

The report quotes administrative law judge Brenda Murray as saying the evidence showed Ernst & Young "has an utter disdain" for the SEC's regulations on auditors' independence.

It also reported that the New York-based Ernst & Young did not appeal the ruling, though it had previously argued that its conduct was appropriate and met professional standards. The company said it is "fully committed" to working with the SEC-approved independent consultant it must hire under the judge's order to oversee its policies and internal controls.

The report added that SEC enforcement attorneys had been seeking since 2002 to have Ernst & Young temporarily barred from taking on any publicly traded companies as new audit clients, arguing that the firm violated rules designed to keep accountants independent from the companies they audit when it engaged in a business deal with software maker PeopleSoft Inc. AT

Cutting Spiralling Payroll Costs

With the announcement by the British Chambers of Commerce that payroll compliance is costing 57 times more per employee for small companies than it does for larger companies, SMEs are being advised to consider automating the payroll process to cut costs.

Small businesses are bearing the brunt of increased red tape and it is becoming increasingly difficult to keep abreast of all the changes that can affect a company's payroll, reports *Accountingweb*.

The UK-based online report suggested that by automating the process and investing in a quality product, companies no longer have to worry about compliance and can rely on the software to calculate each member of staff's benefits accurately.

It gave as an example a product from the business software developer IRIS. The latest version (4.50.100) of its payroll software, IRIS PAYE-Master, includes a full year end update. AT

Business School Researches Auditing

In the battle against dishonest accounting techniques in American businesses, institutions of higher learning are trying to carve out a role for themselves on the front lines.

Using a grant from KPMG International — an auditing and consulting firm — Rutgers Business School plans to build the Continuous Assurance and Reporting Laboratory, which will study cutting-edge techniques and technologies for continuous business reporting and auditing.

The goal of the laboratories is to hopefully improve business ethics and provide more accessible business information to prevent insiders from withholding information, according to its online news report.

The field of continuous auditing was first proposed in 1990; the CAR-Lab is one of the first to put the theory to practice. Although auditing techniques have been under consideration for more than 10 years, the recent accounting failures of corporations such as Andersen Consulting, Enron and WorldCom have created immense pressure on companies like KPMG to develop new auditing procedures.

Michael Alles, an associate professor in the business school's Department of Accounting and Information Systems, said changes in auditing practices became a priority when Congress passed the Corporate and Auditing Accountability, Responsibility and Transparency Act of 2002.

KPMG International, one of the world's largest providers of accounting services, has provided funding for the CAR-Lab and is working directly with the university's researchers.

Stuart Campbell, managing partner at KPMG's Audit and Advisory Services Center, said the collaborative research efforts of KPMG and the university will be directly applicable to the business world. (*Source*: www.dailytargum.com) AT

Integrated Governance, Risk and Compliance Management

A new White Paper by PWC explores the concepts of Governance, Risk and Compliance (GRC) within a challenging business, regulatory and social environment, the company says.

The document defines the concept of an integrity-driven performance strategy — a guiding philosophy for delivering shareholder value through a firm commitment to trust, integrity and values.

"The White Paper shows a view of the future and takes the reader along on a journey demonstrating how an organisation can enhance value through an integrated approach to GRC — the foundation for which are best practices of many highly respected and successful organisations," it says in a statement posted on its website.

The White Paper also introduces the Governance, Risk & Compliance Operating ModelTM, developed by PricewaterhouseCoopers as a roadmap to help organisations achieve a culture of integrity-driven performance. AT

The paper is available at www.pwc.com/governance

Europe Adopts New Transparency Directive

The European Parliament has approved a new Transparency Directive that will improve the information that investors receive, though not quite as far as had been proposed, reports *IASplus.com*.

The directive, which will now go to the Council of Ministers for final approval, requires securities issuers to provide annual financial reports within four months after the end of their financial year. It also demands more detailed half-yearly financial reports by share issuers.

The report noted that a mechanism will be established for assessing at EU level the equivalence between international accounting standards and non-EU country accounting standards for the purpose of allowing companies from non-EU countries to submit their national GAAP financial statements rather than IFRS statements. AT

For further details, a copy of the EU press release is available at www.iasplus.com/europe/0403transparencypr.pdf

IFAC

IFAC Publishes Statements of Membership Obligations

Establishes International Benchmarks For Professional Accountancy Organisations

The Board of the International Federation of Accountants (IFAC) recently approved seven Statements of Membership Obligations (SMOs) designed to assist and direct IFAC's 158 member organisations and potential members in ensuring high quality performance by professional accountants. The SMOs, released after an extensive comment period, cover a member body's obligations to support the work of IFAC, the work of the International Accounting Standards Board, and obligations regarding quality assurance and investigation and discipline.

"The SMOs, to be presented to IFAC's Council for ratification in November, form the basis of the IFAC Member Body Compliance Programme. That programme is designed to encourage continuous improvement on the part of member organisations in meeting their public interest responsibilities and to contribute to the goal of achieving convergence to international standards," states IFAC Director of Compliance, Russell Guthrie.

The specific SMOs, which may be downloaded from the IFAC website at www.ifac.org, cover the following areas:

- Quality Assurance;
- International Education Standards for Professional Accountants and Other EDCOM Guidance;
- IFAC Code of Ethics for Professional Accountants;
- International Standards Related Practice Statements and Other Papers issued by the International Auditing and Assurance Standards Board;
- International Public Sector Accounting Standards and other PSC Guidance;
- Investigation and Discipline; and
- International Financial Reporting Standards. AT

New IFAC Guidance Addresses Anti-Money Laundering and the Role of the Professional Accountant

Governments, regulators and the global business community are increasingly calling on accounting practitioners to contribute to the battle against money laundering. A new paper issued by the International Federation of Accountants (IFAC), Anti-Money Laundering 2nd Edition, addresses the increased expectations of legislators and regulators with respect to the profession's role in detecting money laundering and implementing controls and safeguards against it.

This 2nd edition of IFAC's paper on anti-money laundering (AML) expands on the original paper issued in January 2002 to address the professional accountants' role and ethical obligations as well as recent best practices in auditing, anti-money laundering, and suspicious activity reporting programmes.

"This paper is significant for several reasons. The accountancy profession is becoming increasingly involved in combatting corruption as a result of legislation requiring businesses to have compliance monitoring programmes and to independently test the control environment and effectiveness of these programmes," points out Jim Sylph, Technical Director of the International Auditing and Assurance Standards Board (IAASB) of IFAC.

"Money laundering can have devastating impacts, particularly on emerging financial markets and developing economies, thus undermining financial stability worldwide," emphasises Mr. Sylph.

The new paper highlights both the causes and possible means of preventing money laundering. Sections of the paper focus on indications of money laundering, vulnerability of banks, non-bank financial institutions and other entities, and governance-related issues. Additionally, it includes a compendium of AML guidance. AT

The paper may be downloaded at no charge from IFAC's website by going to www.ifac.org/store.

IFAC Releases 2004 Handbook of International Auditing, Assurance and Ethics Pronouncements

IFAC's 2004 *Handbook of International Auditing, Assurance, and Ethics Pronouncements*, featuring all pronouncements issued by the International Auditing and Assurance Standards Board (IAASB) and the Ethics Committee through 31 December 2003, is now available in print and in a new fully searchable, interactive electronic format.

The pronouncements issued by the IAASB have been restructured to better reflect the services covered by them. The 2004 edition now includes:

- International Standards on Auditing (ISAs) and International Standards on Review Engagements (ISREs), which deal with the audit and review of historical financial information;
- International Standards on Assurance Engagements (ISAEs), which deal with assurance engagements other than the audit or review of historical financial information; and
- International Standards on Related Services (ISRSs), which deal with related services specified by the IAASB.

Additions to this year's handbook include the new audit risk standards, assurance standards, assurance framework, and an interpretation to IFAC's Code of Ethics for Professional Accountants. AT

In addition to the print format and a free PDF version, IFAC in conjunction with Eurofield Information Solutions Pty Limited (EIS) has developed an electronic version of the handbook using EIS eComPress technology. The eComPress version of the handbook can be securely purchased and immediately downloaded from the IFAC online bookstore (www. ifac.org/Store) and is also available on a CD-ROM.

Prices for the *2004 Handbook of International Auditing, Assurance, and Ethics Pronouncements* are as follows: Print — US $100; eComPress CD-ROM — US$100; eComPress Download — US$100. Package discounts are also available: print and CD-ROM — US $170; print and eComPress Download — US$170. Downloadable networked versions are also available. Shipping charges apply in some instances.

ACCA Education Conference — Globalisation of Education: Impact and Consquences

The Association of Chartered Certified Accountants (ACCA) recently organised a conference on *Globalisation of Education: Impact and Consequences* in Kuala Lumpur. Deputy Minister of Higher Education, YB Datuk Fu Ah Kiow, officiated the event and delivered the Keynote Address.

The conference addressed and debated trends, issues and challenges from the effect of globalisation on education and development. The conference echoed and reiterated what our Prime Minister Datuk Seri Abdullah Ahmad Badawi said on the need for an "education revolution" to ensure competitiveness through the quality of the nation's human capital. The conference brought together a group of thought leaders, educationists, policy-makers and corporate leaders to share, engage and explore the relevant topics on the conference theme.

The conference papers included:

- Impact and challenge of globalisation towards education — the Big Picture.
- Changing roles of stakeholders in education and their strategies and thoughts in shaping the directions and future of education.
- New enablers and production of education and the tensions between education traditionalists and reformers.
- Convergence and divergence of the national education strategy, and its effects on infrastructure and attitudes.

126 participants from various public and private universities attended the conference.


YB Datuk Fu meeting the participants of the conference after officiating the ACCA Education Conference

The conference was timely, as it brought to the table, the education issues and debates that are current, thought provoking and relevant to both policy makers and educationists, more so for the new Ministers in education, said, Tay Kay Luan, Head of ACCA Malaysia.

In welcoming the participants, YBhg Dato' Khalid Ahmad, President of ACCA's Malaysia Advisory Committee reminded participants that education and human capital development go hand in hand. "They in turn are impacted by technology, market forces, consumer tastes and regulation," he said. AT

Employers' Thought Leadership Programme:

ACCA Working with Ford Malaysia and IBBM

As part of its employers' thought leadership programme, ACCA organised two luncheon talks with Ford Malaysia and IBBM (Institute of Bankers Malaysia) titled *"Corporate Sustainability Reporting"* in March 2004.

"Companies are under mounting pressure from investors, governments, NGOs and other stakeholders to demonstrate their efforts to manage the effects of their operations. The bottom line needs to show more that just profit and loss. It must also reflect how transparently their businesses are governed, their roles in society and the impact of their activities on the natural environments," said Tay Kay Luan, Head of ACCA Malaysia.

The talk was delivered by Rachel Jackson, Head of Social and Environmental issues.

A total of 46 finance professionals from both organisations attended the talk which focused on concepts and the application of corporate sustainability reporting, best practices and successful factors.

This is part of an ACCA lecture series that aims at sharing and contributing thought leadership ideas with business leaders and employers in Malaysia. AT


Shah Ghani, Corporate Affairs Advisor, Ford Malaysia


Participants busy taking down notes

CIMA

A New Global Business Qualifications Framework

One of the first to benchmark against International Education Standards

CIMA has launched an exciting approach to professional financial and business education and training with the introduction of a new generation of CIMA qualifications following one of the largest pieces of research ever undertaken by CIMA. The internationally - based research consulted CIMA members, students and employers — both current and prospective — on a global scale across a full range of private and public enterprises. The new CIMA Professional examinations have been developed in partnership with the University of Bath's School of Management, one of the top business schools in Europe. The qualifications were approved unanimously by CIMA's Council in London in October 2003 and will first be examined in May 2005.

In launching these groundbreaking updates to the CIMA qualifications, the driving force behind the changes have been:

- the rapidly changing business and regulatory environments;
- the new IFAC* International Education Standards which come into force on 1 January 2005; and
- CIMA's focus on ensuring that employers are increasingly attracted to the CIMA Qualification.

In this environment, CIMA, as one of the largest chartered professional accounting bodies in the world focused solely on the training of accountants in business, is committed to providing Chartered Management Accountants with leading edge, best business practices in financial management, business ethics and corporate governance.

At the launch of the new CIMA professional qualifications in the UK on 30 January, Claire Ighodaro, CIMA President, said:

"Today is not just about the core CIMA qualification but something wider and even more challenging. Uniquely, CIMA has spent the last eighteen months developing a 'joined up' framework which synthesises what is its core qualification, the Chartered Management Accountant, with continuing professional education — CIMA Professional Development — to fulfil CIMA's life long learning agenda."

The responsibility of CIMA, its members and students, to act in the best interests of their employers and the public, is critically underpinned by the quality of the Chartered Management Accountant Qualification and the commitment of CIMA members to keep up to date in their chosen employment while complying with a set of CIMA ethical guidelines.

There are major structural and content changes to CIMA's portfolio of professional qualifications and the way in which the qualification is assessed, in order to enhance the differentiation of the Chartered Management Accountant from their competitors in the eyes of both employers and students.

Committed to best practice internationally, CIMA believes that this set of changes is one of the first to be benchmarked against International Education Standards.

CIMA's President added: "CIMA has a total business focus — 99 per cent of CIMA members and students work in business and not in accountancy practices. This has enabled us to build on the unquestioned strengths of the current syllabus to deliver a new professional qualification with double the focus of any competitor on business management and strategic management accounting. Overall we provide more management, more management accounting, more project management and more strategy than any other UK accounting body. Our unique blend of academic training and practical experience will therefore continue to provide employers with what they want - Chartered Management Accountants who have the leading edge skills to drive business growth."

"There are other unique elements of the CIMA syllabus that will ensure that the CIMA Professional Qualification stands out from its competitors as the chartered qualification of choice for business. Our credibility is backed by a standard pass mark for all papers. Our students study the same syllabus worldwide, we have a major focus on ethics throughout the new syllabus and we are also the only body to focus on interpersonal skills as a requirement of the new Professional Qualification. This is all backed up by a unique focus on the practical, covering detailed project management and an IFAC compliant test of professional competence in the form of an international case study. We believe we are the first professional body to provide this."

CIMA's professional examinations now comprise three learning 'pillars' — Management Accounting, Business Management and Financial Management — comprising *nine* examinations. These are followed by a Test of Professional Competence in Management Accounting (a case study) which is preferably undertaken after passing the nine exams *and* gaining a minimum of three years of relevant practical experience defined by CIMA.

Claire Ighodaro concluded:

"CIMA has already provided its members with the groundbreaking fast-track link to the Henley MBA. We are delighted to announce today a further addition to the CPD content portfolio. Negotiations to link up CIMA Members to Harvard Business Publishing's (HBP) HarvardMentorPlus — on-line learning materials — have been completed and more details will be available shortly. The HBP link is unique certainly among the UK's Professional Accounting bodies and will be available to CIMA Members worldwide through the cimaglobal.com members' site. HarvardMentorPlus provides access to a vast range of 'Harvard' expertise which will greatly assist CIMA Members in keeping their knowledge and skills up to date." AT

For further information on CIMA's new generation of qualifications, please visit www.cimaglobal.com/professionalqualifications.

CPA Australia Awards Book Prizes to Top Scorers

Eight top scoring accounting students from Colleges and Universities in Malaysia have won the annual book prize awarded by the CPA Australia Malaysia Division.

They are: Yap Sook Chan from Universiti Sains Malaysia, Yeap Kai Lin from Sepang Institute of Technology, Kok Aik Lee from HELP Institute, Sitara Ramakrishnan from Kolej Damansara Utama, Nurul Shazwan Abdullah from Universiti Kebangsaan Malaysia, Nor Hannani Mahmud from IIUM, Lim Bee Ling from Taylor's Business School and Kan Chee Sum from Disted-Stamford College.

The award, valued at RM 300 each, is now in its second year. Launched in 2003, the award is offered to first year students instead of final year students, as is the norm, in universities and colleges.

"We want to encourage more students to choose accounting as their major, hence the decision to open the award to those in their first year," said Tam Kam Peng, Director of CPA Australia, Malaysia Division.

CPA Malaysia Division Director, Tam Kam Peng (right) presenting the book prize to the successful candidate from Help Institute, Kok Aik Lee

The selection of the top scorer in the overall first year accounting papers is done at the end of the academic year by the Head of Accounting programme or appropriate person(s) of the respective college or university.

Dr. Shahul Hameed Mohd Ibrahim, Head of the Department of Accounting from the International Islamic University Malaysia (IIUM) described the award a "good move" as it would encourage students to embark on accountancy as a profession. AT

Tax Changes Make Australian Business More Competitive

Legislation proposed by the Australian Government in the New International Tax Arrangements (Participation Exemption and Other Measures) Bill 2004 recently released will make Australian companies more competitive, reports *AccountingEducation.Com*.

The online report said that the simplification of the international tax process would reduce compliance costs for Australian companies.

In response to the Bill, KPMG said that it was the most important change to Australia's international tax laws in the last 15 years.

"Outside of the US, Australia's international tax regime has long been considered among the most complex in the world," says KPMG partner, Jason Chang. "The changes announced in this Bill significantly remedy this situation."

AccountingEducation.Com reports that the changes announced in the Bill relate to capital gains tax concessions for active foreign companies, foreign dividends, foreign branch income and tainted services income and will achieve three significant benefits for Australian businesses.

To begin with, it will allow Australian companies to compete on a more level playing field with global competitors by exempting gains realised from selling interests in foreign subsidiaries or from restructuring their corporate structure. This exemption has been available to foreign companies for a significant number of years, which has given them a competitive advantage over Australian companies competing globally.

On top of that, the report noted that the proposed legislation will allow Australian companies to repatriate profits from overseas by exempting dividends paid from overseas subsidiaries. This frees up capital for reinvestment by Australian businesses. AT

6-Month Bar Against E&Y Begins

A six-month bar against Ernst & Young from accepting new corporate audit clients began on 26 April , the US Securities and Exchange Commission said.

An administrative law judge at the SEC imposed the suspension on the nation's third-largest accounting firm on April 16 for compromising its independence by engaging in a lucrative business deal with a company whose books it audited, according to an *Associated Press* report filed in from Washington.

The Washington-based report further said that the judge also ordered Ernst & Young to pay US$1.7 million in restitution, plus interest. It was the first time the SEC had sought the suspension of a major accounting firm since 1975.

The report quotes administrative law judge Brenda Murray as saying the evidence showed Ernst & Young "has an utter disdain" for the SEC's regulations on auditors' independence.

It also reported that the New York-based Ernst & Young did not appeal the ruling, though it had previously argued that its conduct was appropriate and met professional standards. The company said it is "fully committed" to working with the SEC-approved independent consultant it must hire under the judge's order to oversee its policies and internal controls.

The report added that SEC enforcement attorneys had been seeking since 2002 to have Ernst & Young temporarily barred from taking on any publicly traded companies as new audit clients, arguing that the firm violated rules designed to keep accountants independent from the companies they audit when it engaged in a business deal with software maker PeopleSoft Inc. AT

Cutting Spiralling Payroll Costs

With the announcement by the British Chambers of Commerce that payroll compliance is costing 57 times more per employee for small companies than it does for larger companies, SMEs are being advised to consider automating the payroll process to cut costs.

Small businesses are bearing the brunt of increased red tape and it is becoming increasingly difficult to keep abreast of all the changes that can affect a company's payroll, reports *Accountingweb*.

The UK-based online report suggested that by automating the process and investing in a quality product, companies no longer have to worry about compliance and can rely on the software to calculate each member of staff's benefits accurately.

It gave as an example a product from the business software developer IRIS. The latest version (4.50.100) of its payroll software, IRIS PAYE-Master, includes a full year end update. AT

Business School Researches Auditing

In the battle against dishonest accounting techniques in American businesses, institutions of higher learning are trying to carve out a role for themselves on the front lines.

Using a grant from KPMG International — an auditing and consulting firm — Rutgers Business School plans to build the Continuous Assurance and Reporting Laboratory, which will study cutting-edge techniques and technologies for continuous business reporting and auditing.

The goal of the laboratories is to hopefully improve business ethics and provide more accessible business information to prevent insiders from withholding information, according to its online news report.

The field of continuous auditing was first proposed in 1990; the CAR-Lab is one of the first to put the theory to practice. Although auditing techniques have been under consideration for more than 10 years, the recent accounting failures of corporations such as Andersen Consulting, Enron and WorldCom have created immense pressure on companies like KPMG to develop new auditing procedures.

Michael Alles, an associate professor in the business school's Department of Accounting and Information Systems, said changes in auditing practices became a priority when Congress passed the Corporate and Auditing Accountability, Responsibility and Transparency Act of 2002.

KPMG International, one of the world's largest providers of accounting services, has provided funding for the CAR-Lab and is working directly with the university's researchers.

Stuart Campbell, managing partner at KPMG's Audit and Advisory Services Center, said the collaborative research efforts of KPMG and the university will be directly applicable to the business world. (*Source*: www.dailytargum.com) AT

Integrated Governance, Risk and Compliance Management

A new White Paper by PWC explores the concepts of Governance, Risk and Compliance (GRC) within a challenging business, regulatory and social environment, the company says.

The document defines the concept of an integrity-driven performance strategy — a guiding philosophy for delivering shareholder value through a firm commitment to trust, integrity and values.

"The White Paper shows a view of the future and takes the reader along on a journey demonstrating how an organisation can enhance value through an integrated approach to GRC — the foundation for which are best practices of many highly respected and successful organisations," it says in a statement posted on its website.

The White Paper also introduces the Governance, Risk & Compliance Operating ModelTM, developed by PricewaterhouseCoopers as a roadmap to help organisations achieve a culture of integrity-driven performance. AT

The paper is available at www.pwc.com/governance

Europe Adopts New Transparency Directive

The European Parliament has approved a new Transparency Directive that will improve the information that investors receive, though not quite as far as had been proposed, reports *IASplus.com*.

The directive, which will now go to the Council of Ministers for final approval, requires securities issuers to provide annual financial reports within four months after the end of their financial year. It also demands more detailed half-yearly financial reports by share issuers.

The report noted that a mechanism will be established for assessing at EU level the equivalence between international accounting standards and non-EU country accounting standards for the purpose of allowing companies from non-EU countries to submit their national GAAP financial statements rather than IFRS statements. AT

For further details, a copy of the EU press release is available at www.iasplus.com/europe/0403transparencypr.pdf

IFAC

IFAC Publishes Statements of Membership Obligations

Establishes International Benchmarks For Professional Accountancy Organisations

The Board of the International Federation of Accountants (IFAC) recently approved seven Statements of Membership Obligations (SMOs) designed to assist and direct IFAC's 158 member organisations and potential members in ensuring high quality performance by professional accountants. The SMOs, released after an extensive comment period, cover a member body's obligations to support the work of IFAC, the work of the International Accounting Standards Board, and obligations regarding quality assurance and investigation and discipline.

"The SMOs, to be presented to IFAC's Council for ratification in November, form the basis of the IFAC Member Body Compliance Programme. That programme is designed to encourage continuous improvement on the part of member organisations in meeting their public interest responsibilities and to contribute to the goal of achieving convergence to international standards," states IFAC Director of Compliance, Russell Guthrie.

The specific SMOs, which may be downloaded from the IFAC website at www.ifac.org, cover the following areas:

- Quality Assurance;
- International Education Standards for Professional Accountants and Other EDCOM Guidance;
- IFAC Code of Ethics for Professional Accountants;
- International Standards Related Practice Statements and Other Papers issued by the International Auditing and Assurance Standards Board;
- International Public Sector Accounting Standards and other PSC Guidance;
- Investigation and Discipline; and
- International Financial Reporting Standards. AT

New IFAC Guidance Addresses Anti-Money Laundering and the Role of the Professional Accountant

Governments, regulators and the global business community are increasingly calling on accounting practitioners to contribute to the battle against money laundering. A new paper issued by the International Federation of Accountants (IFAC), Anti-Money Laundering 2nd Edition, addresses the increased expectations of legislators and regulators with respect to the profession's role in detecting money laundering and implementing controls and safeguards against it.

This 2nd edition of IFAC's paper on anti-money laundering (AML) expands on the original paper issued in January 2002 to address the professional accountants' role and ethical obligations as well as recent best practices in auditing, anti-money laundering, and suspicious activity reporting programmes.

"This paper is significant for several reasons. The accountancy profession is becoming increasingly involved in combatting corruption as a result of legislation requiring businesses to have compliance monitoring programmes and to independently test the control environment and effectiveness of these programmes," points out Jim Sylph, Technical Director of the International Auditing and Assurance Standards Board (IAASB) of IFAC.

"Money laundering can have devastating impacts, particularly on emerging financial markets and developing economies, thus undermining financial stability worldwide," emphasises Mr. Sylph.

The new paper highlights both the causes and possible means of preventing money laundering. Sections of the paper focus on indications of money laundering, vulnerability of banks, non-bank financial institutions and other entities, and governance-related issues. Additionally, it includes a compendium of AML guidance. AT

The paper may be downloaded at no charge from IFAC's website by going to www.ifac.org/store.

IFAC Releases 2004 Handbook of International Auditing, Assurance and Ethics Pronouncements

IFAC's 2004 *Handbook of International Auditing, Assurance, and Ethics Pronouncements*, featuring all pronouncements issued by the International Auditing and Assurance Standards Board (IAASB) and the Ethics Committee through 31 December 2003, is now available in print and in a new fully searchable, interactive electronic format.

The pronouncements issued by the IAASB have been restructured to better reflect the services covered by them. The 2004 edition now includes:

- International Standards on Auditing (ISAs) and International Standards on Review Engagements (ISREs), which deal with the audit and review of historical financial information;
- International Standards on Assurance Engagements (ISAEs), which deal with assurance engagements other than the audit or review of historical financial information; and
- International Standards on Related Services (ISRSs), which deal with related services specified by the IAASB.

Additions to this year's handbook include the new audit risk standards, assurance standards, assurance framework, and an interpretation to IFAC's Code of Ethics for Professional Accountants. AT

In addition to the print format and a free PDF version, IFAC in conjunction with Eurofield Information Solutions Pty Limited (EIS) has developed an electronic version of the handbook using EIS eComPress technology. The eComPress version of the handbook can be securely purchased and immediately downloaded from the IFAC online bookstore (www. ifac.org/Store) and is also available on a CD-ROM.

Prices for the *2004 Handbook of International Auditing, Assurance, and Ethics Pronouncements* are as follows: Print — US $100; eComPress CD-ROM — US$100; eComPress Download — US$100. Package discounts are also available: print and CD-ROM — US $170; print and eComPress Download — US$170. Downloadable networked versions are also available. Shipping charges apply in some instances.

List of New Books Available in the MIA Resource Centre

Bank Negara Malaysia: Annual Report 2003, Kuala Lumpur: Bank Negara Malaysia, 2004.
Call No.: 330.0681 MAL

Enterprise Governance: Getting the Balance Right, New York: IFAC & CIMA, 2004.
Call No.: 658.422 INT

Malaysian Master Tax Guide 2004, Singapore: CCH Asia Pte Limited, 2004.
Call No.: 336.2409595 MAL

Credit Facilities for Small and Medium Industries: Options and Opportunities, by Lee Khee Joo, Kuala Lumpur: Utusan Publications & Distributors Sdn Bhd, 2003.
Call No.: 332.74209595 LEE

Globalisation & Liberalisation of Trade in Services: Challenges & Direction for the Malaysian Accountancy Services Sector, Kuala Lumpur: Malaysian Institute of Accountants, 2003
Call No.: 337.109595 GLO

Accrual Budgeting and Accounting in Government and its Relevance for Developing Member Countries, by Sarath Lakshman Athukorala & Barry Reid, Manila: Asian Development Bank, 2003.
Call No.: 657.8350091724 SAR

International Accounting Standards, *IAS 32: Financial Instruments: Disclosure and Presentation*, London: IASB, December 2003.
Call No.: 657.0218 INT

International Accounting Standards, *IAS 39: Financial Instruments: Recognition and Measurement*, London: IASB, December 2003.
Call No.: 657.0218 INT

Guidance on Implementation, *IAS 39: Financial Instruments: Recognition and Measurement*, London: IASB, December 2003.
Call No.: 657.0218 INT

International Accounting Standards, *Improvements to International Accounting Standards*, London: IASB, December 2003.
Call No.: 657.0218 INT

Basis for conclusions on Exposure Draft, *ED 6: Exploration for and Evaluation of Mineral Resources*, London: IASB, January 2004.
Call No.: 657.021 INT

International Financial Reporting Standards, *IFRS 2: Share-based Payment*, London: IASB, February 2004.
Call No.: 657.0218 INT

Guidance on Implementing, *IFRS 2: Share-based Payment*, London: IASB, February 2004.
Call No.: 657.0218 INT

Basis for Conclusions on International Financial Reporting Standards, *IFRS 2: Share-based Payment*, London: IASB, February 2004.
Call No.: 657.0218 INT

International Education Standards for Professional Accountants: IES 1-6, New York: IFAC, October 2003.
Call No.: 370.1 INT

Glossary of Defined Terms: IPSAS 1 to IPSAS 20, New York: IFAC, January 2004.
Call No.: 657.0218 INT

Accounting for Social Policies of Governments, New York: Public Sector Committee, IFAC, January 2004.
Call No.: 657.0218 INT

Revenue from Non-Exchange Transactions (Including Taxes and Transfers), New York: Public Sector Committee, IFAC, January 2004.
Call No.: 657.0218 INT

Non-Audit Firms Registered with MIA

FROM 1 TO 31 MARCH 2004

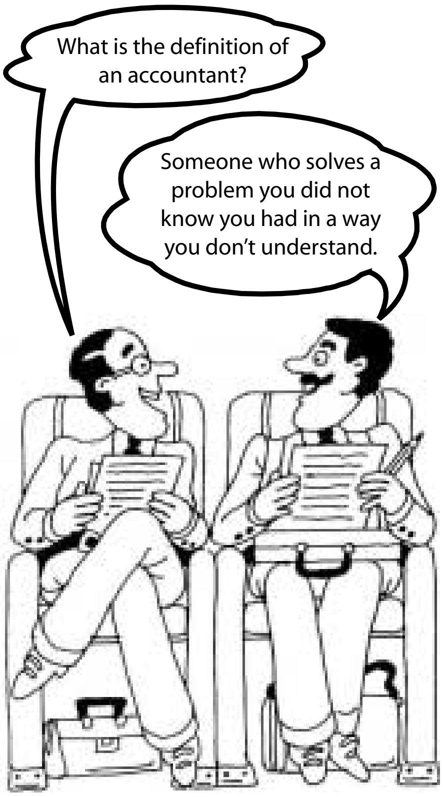
NON-AUDIT FIRM'S NAME	NF NO
NEGERI SEMBILAN DARUL KHUSUS	
Chau Corporate Management & Consultants 694, Taman Sri Ramai, Kuala Sawah Rantau, 71200 Seremban Tel: 06-694 2009	**0513**
SELANGOR DARUL EHSAN	
Ali Shah & Co. 3374, Jalan 18/31, Taman Sri Serdang 43300 Seri Kembangan Tel: 03-8948 4653 Fax: 03-8945 2973 e-mail: ashiani@tm.net.my	**0512**
Azita & Co No. 41B, Jalan SG 3/19 Taman Seri Gombak, 68100 Batu Caves Tel: 03-6185 1585 Fax: 03-6185 2585 e-mail: azita@skali.com	**0515**
KC Lee & Co. 49B, Jalan SS25/2, Taman Bukit Emas 47301 Petaling Jaya Tel: 03-7880 5990 Fax: 03-7880 6440 e-mail: lkc76@yahoo.com	**0514**
RS & Co. D13A-1, Seri Puri Apartment Desa Aman Puri, 52100 Kepong Tel: 012-323 6970 e-mail: rslw@pd.jaring.my	**0518**
T. T. Yeow & Co Lot 1275, Jalan Batu Bata Off Jln Bukit Kemuning, Seksyen 35 42450 Shah Alam Tel: 03-5124 8001 Fax: 03-5124 8002 e-mail: benildusttyeow@my.jaring.net	**0510**
Wong & Leong 83C, Jalan SS 15/5A, 47500 Subang Jaya Tel: 03-5631 6381 Fax: 03-5628 1352 e-mail: cnleong@pc.jaring.my	**0509**
WILAYAH PERSEKUTUAN	
Aitlau Management Services 498-3-2, Wisma Indah Jalan Tun Razak, 50400 Kuala Lumpur Tel: 03-9281 5504 Fax: 03-9281 5516 e-mail: aitlau@time.net.my	**0517**
Cho Partners Suite # 8-13-6, Level 13 Menara Mutiara Bangsar, 8 Jalan Liku Off Jalan Bangsar, 59100 Kuala Lumpur Tel: 03-2284 2182 Fax: 03-2284 1416 e-mail: tfpsr@tm.net.my	**0516**
See & Associates Suite B-05-04, Plaza Mont' Kiara 2, Jalan 1/70C, Off Jalan Bukit Kiara 50480 Kuala Lumpur Tel: 012-269 2092 e-mail: see_associates@yahoo.com	**0519**
TCK Consultancy 98, Jalan F5, Taman Melawati 53100 Kuala Lumpur Tel: 03-4108 5339 Fax: 03-4108 5339	**0511**

Audit Firms Registered with MIA

FROM 1 TO 31 MARCH 2004

AUDIT FIRM'S NAME	AF NO
KEDAH DARUL AMAN	
Por, Ooi & Associates 1861A, Jalan Stadium 05100 Alor Star Tel: 04-733 5759 Fax: 04-733 1592 e-mail: as@porooi.com.my	**1530**
SARAWAK	
Loke Yee Seng & Associates No. 15, 1st Floor Jalan Green Hill 93100 Kuching Tel: 082-243700 Fax: 082-243700	**1531**
WILAYAH PERSEKUTUAN	
Taat & Associates 16, Jalan 5/4C Desa Melawati 53100 Kuala Lumpur Tel: 03-4108 2980 Fax: 03-4108 2985	**1529**
WMS Associates Suite E, 10th Floor Bangunan Angkasa Raya Jalan Ampang, 50450 Kuala Lumpur Tel: 03-2144 9321 Fax: 03-2144 9322	**1533**
WSJ & Co C-5-8, Block C Megan Phoenix, Km 10 56000 Cheras Tel: 03-9101 9369 Fax: 03-9101 9364 e-mail: melberg8@tm.net.my	**1532**

… Counting on Humour



the doctor …

A patient was at her doctor's office after undergoing a complete physical exam. The doctor said, *"I have some very grave news for you. You only have six months to live."*

The patient asked, *"Oh doctor, what should I do?"*

The doctor replied, *"Marry an accountant."*

"Will that make me live longer?" asked the patient.

"No," said the doctor, *"but it will SEEM longer."*

---

accountant and farmer …

A man walking along a road in the countryside comes across a shepherd and a huge flock of sheep. Stopping to rest, he tells the shepherd, *"I will bet you $100 against one of your sheep that I can tell you the exact number in this flock."*

The shepherd thinks it over. It's a big flock, so he takes the bet.

The man looks around and answers, *"869."* The shepherd is astonished, because that is exactly right.

The shepherd says, *"Okay, I'm a man of my word, take an animal."* The man picks one up and begins to walk away.

"Wait," cries the shepherd, *"let me have a chance to get even. Double or nothing that I can guess your exact occupation."* The man agrees.

"You are an accountant for the government," says the shepherd.

"Amazing!" responds the man. *"You are exactly right! But tell me, how did you deduce that?"*

"Well," says the shepherd, *"put down my dog and I will tell you."*

---

executive washrooms …

Three accountants were in the urinal performing their morning constitutional. The first finishes and walks over to the sink to wash his hands. He then proceeds to dry his hands very carefully. He uses paper towel after paper towel and ensures that every single spot of water on his hands is dried. Turning to the other

two accountants, he says — *"Chartered Accountants are trained to be extremely thorough"*.

The second finishes his task at the urinal and he proceeds to wash his hands. He uses a single paper towel and makes sure that he dries every drop of water from his hands using every available portion of the paper towel. He turns and says — *"Certified Accountants are not only trained to be extremely thorough but we are also trained to be extremely efficient"*.

The third accountant finishes and walks straight for the door. *"Management Accountants learn not to piss on their hands."* AT